

North Carolina



*Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2014*

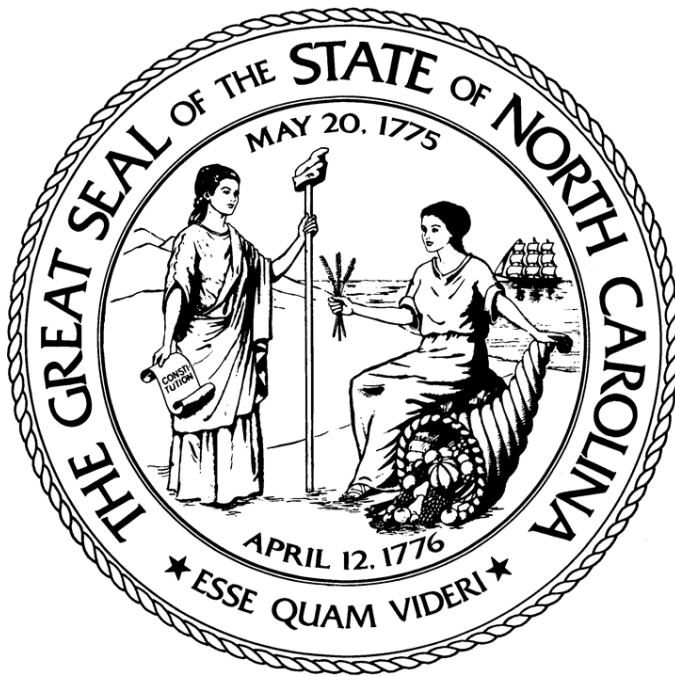
Pinehurst hosted the 2014 U.S. Open and U.S. Women's Open Championships in back-to-back weeks June 12-22, 2014, marking the first time in history that both tournaments were played in the same year, on the same course.

Information courtesy of www.pinehurst.com. Photo courtesy of www.visitNC.com.

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2014



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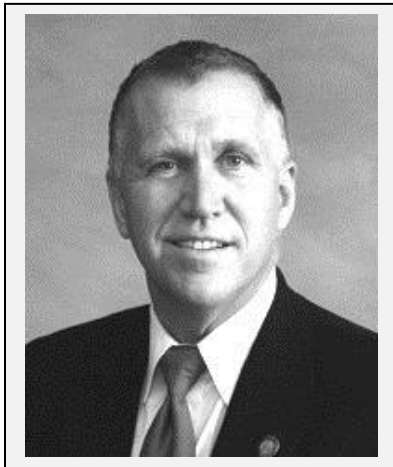
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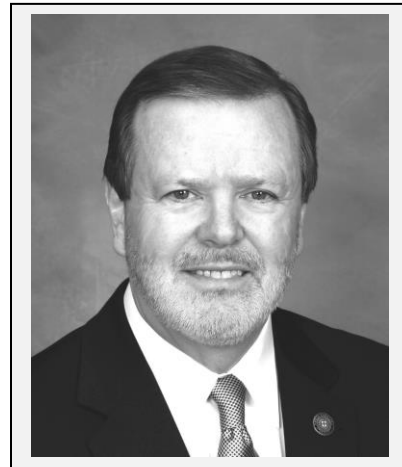
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.



PAT MCCRORY
Governor of North Carolina



REPRESENTATIVE THOM TILLIS
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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INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

LINDA COMBS
STATE CONTROLLER

December 2, 2014

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 2014 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 9.94 million, making it the 10th most populated state in the nation. Ninety-two 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 79,578 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 "Top Business Climates" according to *Site Selection* magazine. It has taken the top honor 10 times in the last 14 years in the annual selection by the 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 control 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 Appropriation Bill. The certified budget 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 2013-14, the economy continued to grow at a moderate pace. Economic conditions in the State, as well as the nation, reflected the ongoing improvements in the economy. For many industries, growth was strong enough to improve their economic output to levels last experienced in 2007, prior to the Great Recession. Despite the general improvement, employment and wage gains remained mixed. The unemployment rate dropped nearly two percentage points during the year. The rate fell from 8.3% to 6.3%. Unfortunately, much of the decline in the unemployment rate was from a shrinking labor force and not from increased employment. The State added 73,600 payroll jobs, which was slightly better than the gain of 70,800 the previous year. Likewise, the State's improvement in the overall economy did not lead to comparable improvement in wage and salary income. Wage and salary income grew by only 3%. The growth was much weaker than had been expected at the start of the year. For the second-half of 2014, improving economic conditions are expected to boost both employment and income growth. In 2015, wages are forecast to approach growth rates closer to the long-range average of 5.1%.

The slow-paced, erratic recovery of the previous several years began to steady and strengthen during the first-half of the fiscal year. The economy appeared poised to gain significant momentum. By the second-half of the year, much of this momentum had been lost. The growth rate in the nation's Gross Domestic Product (GDP, a broad measure of economic activity) turned negative the first quarter of 2014. Difficult weather conditions across much of the nation during the winter and the ongoing instability of the global economy were a drag on the nation's economy. In the closing months of the fiscal year, conditions improved and the economy picked up where it left off at the first of the year.

National Economic Outlook

United States Economic Indicators

	FY2012-13 Actual	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected
Economic growth (GDP)*	1.8%	2.4%	3.1%	3.4%
Personal Income	4.2%	2.7%	5.2%	5.8%
Corporate Pre-Tax Profits	10.6%	5.2%	5.1%	7.8%
Retail Sales	4.8%	3.8%	5.5%	6.1%
Consumer Price Index	1.7%	1.5%	2.2%	2.4%
30-yr Fixed Mortgage Interest Rate	3.5%	4.3%	4.3%	5.7%

*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 continued to affect economies worldwide. This was especially true in the Eurozone where sustainable economic growth proved difficult. Uprisings in the Middle East added to the instability. In the US, capital markets have made a strong recovery, but those improvements have not been widespread across the whole economy. Offsetting some of the weakness in the global economy has been the rebound in the nation's housing market. While improvements in housing were modest, the improvement seemed to boost consumer confidence and many of the related industries hurt by the deep decline in housing and construction benefited as well. Unfortunately, the economy remained in a below-normal growth pattern making it susceptible to mild shocks, such as the downturn caused by the harsh winter experienced in much of the nation. The nation's outlook for the remainder of 2014 and 2015 is for slightly stronger economic growth, which will move the expansion closer to an average pace of growth.

Economic indicators convey the stronger pace of growth during the fiscal year. The national economy grew at a pace of 2.4%. This was ahead of the pace the previous fiscal year. The economy appeared poised to move into a much stronger recovery phase with 3.5% annualized growth in the fourth quarter of 2013. By the next quarter, rather than accelerating, growth had declined by 2.1%. Despite the sporadic pace of the recovery, the broader trends in the nation's economy indicate steady improvement. In fiscal year 2014-15, the national economy is expected to grow by 3.1%. The following fiscal year economic activity is expected to pick up the pace growing by 3.4% surpassing the long-run average growth rate of 3.0%.

Below normal economic growth during the year meant that employment would be slow to improve. The nation's unemployment rate dropped to 6.1%, but long-term unemployment and under-employment continued to cloud the employment picture. A shrinking labor force helped lower the unemployment rate rather than strong increases in employment. This slack in the labor market was reflected by the sluggish growth in wages. During the fiscal year, total personal income in the nation rose by only 2.7%. Continued advancements in the economy are projected to push personal income growth to 5.2% in fiscal year 2014-15.

Business profitability saw a major rebound after the recession, but profits had leveled-off by 2012. Many businesses coming out of the recession were bolstered by a global economic recovery primarily in emerging markets such as India and China. In the past year, export demand has moderated and the national economy has not fueled stronger demand for goods and services at home, thus expectations for profit growth are not expected to accelerate. Nonetheless, profits grew by 5.2% during the fiscal year. Profit growth is forecast to stabilize in the upcoming fiscal years with growth of 5.3% and 7.8%.

A good indicator of the health of the economy is retail sales. This key indicator weakened in fiscal year 2013-14. Consumers were hit hard during the Great Recession as household wealth declined, credit markets tightened, inflation-adjusted wages fell, and the employment picture darkened. While each of these problems has improved, the experience has made consumers more cautious and spending patterns reflect that caution. When the economic conditions broadly and fully stabilize, and the employment picture shows solid improvement, consumers should be more willing to increase spending.

To summarize, the global concerns about the fiscal health of many European nations along with the nation's struggle to repair damage to the housing market during the Great Recession continued to impact economic conditions for most of the fiscal year. United States fiscal policy played a smaller role during the fiscal year, but still added uncertainty for consumers and business decision makers. Part of what was fueling economic growth, a global economic recovery, suffered a setback with debt problems plaguing many industrialized nations. While the debt problems showed marked improvement in 2013, the after effects still lingered. Overall, the national economy strengthened during the fiscal year and is poised for solid growth in employment and wages during the next year.

*North Carolina
Economic
Outlook*

North Carolina Economic Indicators

	FY2012-13 Actual	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected
State Gross Product*	3.0%	2.1%	3.4%	3.7%
Personal Income	3.5%	2.9%	4.7%	5.7%
Wages & Salaries	4.4%	3.0%	4.2%	5.6%
Retail Sales	5.5%	4.0%	5.9%	6.2%
Unemployment Rate	8.8%	7.0%	6.3%	6.1%
Employment (Nonagricultural)	1.7%	1.9%	2.1%	2.1%
Population	1.0%	1.1%	1.3%	1.5%
Existing Single-family Home Sales	23.2%	0.7%	2.9%	3.3%

*Adjusted for inflation

For North Carolina, as with the nation, the economy has strengthened, but not enough to eliminate the employment losses from the economic downturn. Economic indicators for the fiscal year, point to growing improvements across the State. Despite adding 73,600 jobs during the fiscal year, industry employment was still down by 65,000 jobs compared to employment at the end of the 2007-08 fiscal year. Most private sector industries experienced modest growth, but employment in the construction industry continued to report declines. The modest gains in employment, did not translate to similar gains in wage and salary income, which increased by only 3%.

Projections for the State's key economic indicators reflect how the recovery in the State 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 slowed in fiscal year 2013-14, but is expected to progress over the next two years. For the fiscal year, income rose 2.9%, well behind the strong growth of six to seven percent experienced in the years prior to the recession. Wage and salary income, a component of total personal income, grew at a weak 3% for the fiscal year. The weakness in wage and salary income growth was consistent with the mixed employment results. Going forward, stronger growth in total income is projected. This growth will result from a continually improving employment situation creating upward pressure on individual wages. A return to long-term growth levels in wage and salary income is forecast for 2015.

The recovery in North Carolina gained strength, and while the recovery gained traction it never accelerated during fiscal year 2013-14. The slow growing economy meant that the State would experience only modest job growth. Nevertheless, the unemployment rate at the end of the fiscal year fell to 6.4%. That compares to the 8.9% at the start of the fiscal year. Unfortunately, much of the decline in the rate was the result of a shrinking workforce. With a slow-growth economy and a soft employment picture, retail sales weakened, growing at a rate of 4%. The retail sales growth slowed from the previous year, falling below the average growth rate. Going forward, retail sales are expected to increase, growing at a pace one to two percentage points above the long-term average growth rate of 5%.

As the State's economy continues to progress, employment prospects are expected to improve, but a robust employment climate is not projected until 2015. All industry sectors experienced growth over the previous year with net employment growth of 1.9%. With the rebound in residential construction, the construction industry had employment gains during the fiscal year of 3.2%. This was the first time construction jobs had year-over-year gains since the recession ended. For 2015, modest improvement in all industries is expected to continue, increasing non-agricultural employment by 2.1%. This pace of growth will help reduce the unemployment rate even as more people come back into the workforce. The rate is projected to average 6.3% in fiscal year 2014-15, and 6.1% in fiscal year 2015-16.

Manufacturing reached double-digit percentage losses in the last recession. During this fiscal year, the manufacturing sector saw little improvement adding only 2,000 jobs (0.1% growth). Manufacturing employment is now above 445,000. This is still 90,000 fewer jobs than at the start of the recession. Another hard-hit industry in the State was the financial sector. The financial market began to rebound in 2010, but employment is not expected to reach pre-recession numbers until 2016 at the earliest.

The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. A strong rebound in home sales was underway in 2012 mostly from pent-up demand from the long economic downturn. In fiscal year 2012-13, sales of existing homes increased by 23.2%. The growth, while impressive, hasn't been sustained. In 2014, annual existing home sales are projected to grow by less than one percent.

To summarize, economic conditions during most of the fiscal year experienced gradual improvement. The slowdown in the first quarter of 2014 highlighted how fragile the economy remains as bad weather and Middle East unrest momentarily derailed the economy's progress. By the next quarter, the economy was back on track and forecasts call for steady improvements into 2015 and 2016. The State's economy should track closely with the national economy. The anticipated strengthening of the economy should increase consumer demand and boost employment growth. These projected gains in employment will help to reduce the slack in the labor market, and should place upward pressure on wages. Rising employment and wage gains will greatly improve the health of the economy as we move into 2015.

— *Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
September 29, 2014*

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).

The economic crisis of 2008 has had long-term effects that continue to require increased contributions from the State in order to maintain the strength of TSERS. Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department of State Treasurer through investment earnings. Effective July 1, 2013, the State established an employer contribution rate of 8.69% of compensation for TSERS. This equals the Actuarially Required Contribution (ARC) rate. Effective July 1, 2014, the State increased the employer contribution rate to 9.15% of compensation for TSERS. This employer contribution rate fully funds the ARC. Maintaining this pattern of annual funding is the most significant action the General Assembly can take to ensure the long-term fiscal health of the pension plan.

The General Assembly enacted a contribution-based cap on pension benefits for members retiring from TSERS and the Local Government Employers' Retirement System. The benefit cap serves to control the practice of "pension spiking," whereby a member's compensation significantly increases during or immediately preceding the four-year period over which compensation is averaged in order to calculate the member's retirement benefit. The cap approximately corresponds with the annuitized equivalent of the total accumulated balance of employee contributions multiplied by a factor selected every five years by the Boards of Trustees.

Another legislative change restored the vesting period to five years instead of 10 years, for all members of the TSERS and for members of the Consolidated Judicial Retirement System who became members on and after August 1, 2011. In reaction to the 2008 financial crisis, the General Assembly had increased the vesting period for employees hired after July 31, 2011 to 10 years as a cost savings measure. The cost savings turned out to be lower than anticipated and the longer vesting period was incongruent with the State's human resources goals. In summary, these legislative actions demonstrate the State's commitment to soundly fulfill its pension obligations.

Banking Operations

The Department of State Treasurer (DST) has received funding approval and implemented a banking system upgrade. The existing system was last upgraded in 2009. As part of the upgrade, DST is working with the Office of the State Controller to replace the State's aged cash management control system.

Enterprise Resource Planning System

The State is starting an initiative to obtain a cost estimate to implement a new statewide financial system. The current North Carolina Accounting System (NCAS) is a limited-function Enterprise Resource Planning (ERP) system that was created in the mid-1970's and has been used by most state government agencies since 1995. The NCAS is an older technology mainframe system that lacks such common functionality as budget management, banking and cash management, grants management, fleet management, facilities management and equipment management.

The first step in implementing a new ERP system is to determine agency business requirements, develop a strategy for implementation, and determine the cost of an enterprise-wide implementation. This work has started, and the results will be presented to the General Assembly prior to the opening of the 2015 long session.

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 2013-14, the balance of the Savings Reserve Account was \$651.3 million. At the end of the year, Session Law 2014-100 did not authorize the State Controller to make a transfer from the General Fund’s unreserved fund balance to the Savings Reserve Account. However, \$245 thousand was transferred to the Savings Reserve per Session Law 2013-186. The balance at the end of the fiscal year 2013-2014 was \$651.6 million. This represents 3.18% 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 2013-14, the balance of the R&R Account was \$161.6 million. During the year, funds were appropriated from the account for capital repair and renovation projects. At the end of the year, Session Law 2014-100 did not authorize the State Controller to make a transfer from the General Fund’s unreserved fund balance to the R&R Account, and the balance was \$11.6 million.

Debt Affordability Advisory Committee

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 2014 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 \$570 million in each of the next 10 years. The ratio of debt service to revenues will peak at 3.72%, notably 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 recommended continuing the State's historically conservative centralized debt management practices. The Committee strongly encouraged the General Assembly to adopt language restricting the ability of State entities to enter into financial arrangements that incur debt or debt-like obligations. The Committee strongly opposed the proposal for the State to provide credit support for debt issues of component unit universities and other State entities whose source of repayment is project revenues.

Lastly, the Committee cautioned that care should be taken as the State enacts laws that permit the procurement and financing of assets through the use of public private partnerships (P3s). While P3s may appear to provide a new source of funds in a time of diminished revenues and debt capacity, such agreements often contain financing arrangements with the private entity that could result in that entity incurring debt or obligations secured, directly or indirectly by governmental payments or charges to the citizens. In the Committee's view, the prioritization of capital projects and issuance of obligations that increase the State's debt burden should remain the prerogative of the General Assembly.

Awards and Acknowledgements

Certificate of Achievement

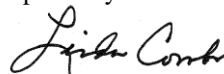
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This was the 20th consecutive year (1994 to 2013) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

Acknowledgments

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

Respectfully submitted,



Linda Combs
State Controller

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CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

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

Presented to

State of North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

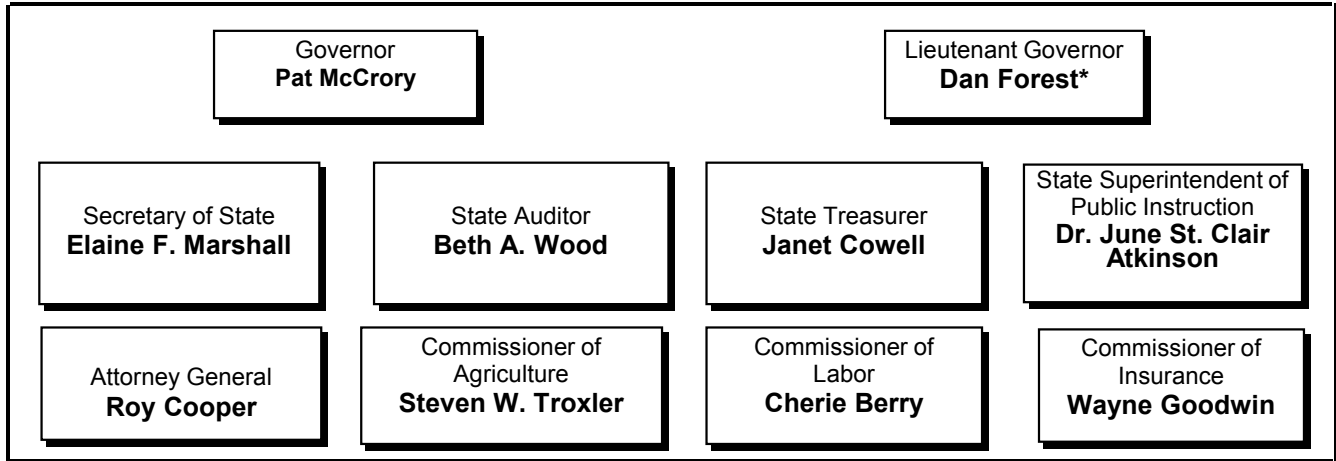
June 30, 2013

Executive Director/CEO

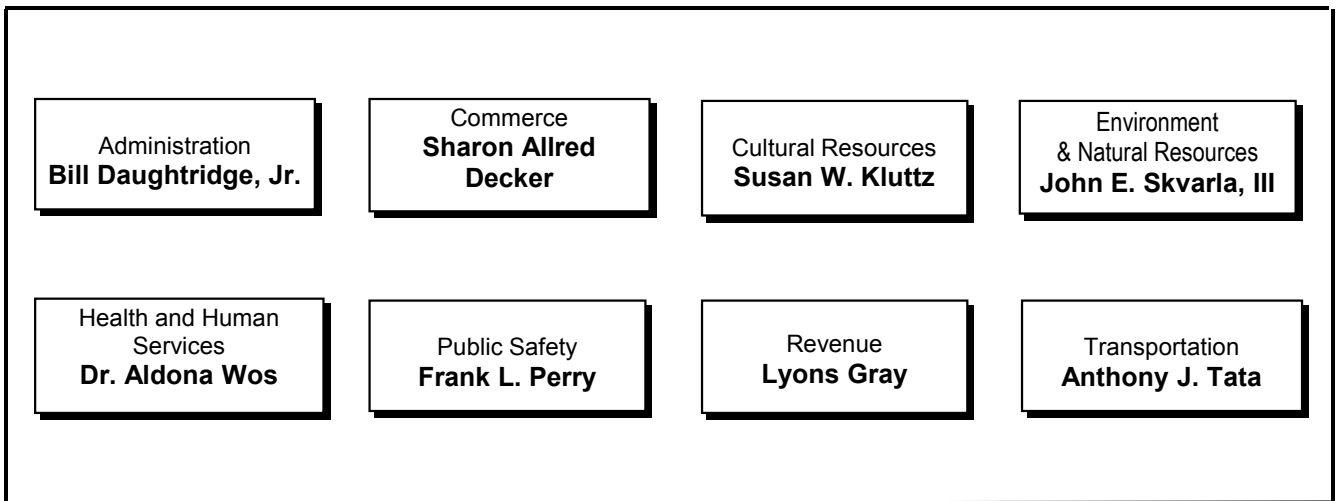
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



Cabinet Secretaries — Appointed by the Governor



**Appointed by Governor,
confirmed by Legislature**

**State Controller
Dr. Linda Combs**

**Appointed by State Board of
Community Colleges**

**Dr. R. Scott Ralls
President**

**Appointed by University
Board of Governors**

**Thomas W. Ross
President**

LEGISLATIVE BRANCH

JUDICIAL BRANCH

General Assembly

Senate	House of Representatives
President Pro Tempore Philip Berger	Speaker Thom Tillis
Deputy Pres. Pro Tempore Louis Pate	Speaker Pro Tempore Paul Stam
Majority Leader Harry Brown	Majority Leader Edgar V. Starnes
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
Sarah Parker

Associate Justices
Mark D. Martin
Robert H. Edmunds, Jr.
Paul M. Newby
Robin E. Hudson
Barbara Jackson
Cheri Beasley

Administrative
Office of the Courts
Judge John W. Smith
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, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 2 percent and 46 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 45 percent and 1 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 5 percent, 3 percent, and 3 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 12 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 2 percent, 2 percent, and 4 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, 7 percent, and 8 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.
- Cash basis claims and benefits of the State Health Plan, which represent 16 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, the University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare, and the Supplemental Retirement Income Plan of North Carolina 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, 2014, 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 22 to the financial statements, during the year ended June 30, 2014, the State implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to these matters.

Other MattersRequired 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 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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, 2014, 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, 2014



*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, 2014. 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's total net position increased by \$3.98 billion or 10.39% as a result of this year's operations. Net position of governmental activities and business-type activities increased by \$2.68 billion (or 7%) and \$1.31 billion (or 814.71%), respectively. At year-end, net position of governmental activities and business-type activities totaled \$40.88 billion and \$1.47 billion, respectively.
- Component units reported net position of \$23.11 billion, an increase of \$1.28 billion or 5.86% from the previous year. The majority of the net position increase is attributable to the University of North Carolina System, a major component unit.

Fund Financial Statements

- The fund balance of the General Fund increased from \$1.3 billion at June 30, 2013 (as restated) to \$1.54 billion at June 30, 2014, an increase of 18.93%.
- The fund balance of the Highway Fund decreased 37.53% to \$214.87 million at June 30, 2014. An increase in highway maintenance and preservation expenditures contributed to the fund balance decrease.
- The fund balance of the Highway Trust Fund increased 44.14% to \$878.12 million at June 30, 2014. The fund balance increase is primarily due to the continued growth in new car sales, which led to an increase in the highway use tax.
- The Unemployment Compensation Fund reported net position of negative \$370.52 million at June 30, 2014 compared to negative \$1.56 billion at June 30, 2013. The improvement in net position is attributable to the drop in the State's unemployment rate and the implementation of Session Law 2013-2. The amount owed to the federal government (that was advanced to finance State unemployment benefit payments) decreased 54.47% to \$980.99 million.
- Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 8.85% from the previous fiscal year to \$1.84 billion. As required by law, the Lottery's net profit of \$503.14 million was transferred to the General Fund to support educational programs.
- The net position of the N.C. Turnpike Authority (Authority) increased 3.11% to \$276.77 million at June 30, 2014. Total operating revenues increased 83.16% to \$24.73 million primarily due to the increase in toll revenues. The Authority receives gap funding of debt service from the Highway Trust Fund.
- The net position of the EPA Revolving Loan Fund increased 7.63% to \$1.4 billion.

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was \$45.64 billion, an increase of 3.93% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for highway projects (\$1.61 billion), a toll road project (\$135 million), new psychiatric hospitals (\$203 million), and software development at the Department of Health and Human Services (\$248 million).

Long-term Debt

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$7.99 billion, a decrease of 7.1% from the previous fiscal year-end. The State issued \$506.26 million in refunding bonds to refinance previously outstanding general obligation and limited obligation bonds reported in governmental activities. The result is expected to be a decrease in future debt service payments of \$53.3 million.
- In connection with the refundings, 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 10 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 (General Fund budgetary schedule, pension and other postemployment benefits trend information) 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 50 and 51) 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 52 and 53) 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 74. Discretely presented component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 166 and 167).

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 200 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 74 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 General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end, and pension plan and other postemployment benefits trend information related to the net pension liability, employer contributions, investment returns, and funding progress and contributions.

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's overall assets and deferred outflows of resources exceeded liabilities by \$42.35 billion (total primary government) at the close of the most recent fiscal year. 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 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2013-2014
	2014	2013 (as restated)	2014	2013 (as restated)	2014	2013 (as restated)	
Current and other non-current assets.....	\$ 9,597,064	\$ 9,930,173	\$3,376,535	\$ 3,217,875	\$ 12,973,599	\$ 13,148,048	(1.33%)
Capital assets, net.....	44,445,982	42,748,557	1,189,232	1,160,746	45,635,214	43,909,303	3.93%
Total assets.....	54,043,046	52,678,730	4,565,767	4,378,621	58,608,813	57,057,351	2.72%
Total deferred outflows of resources.....	216,489	133,808	—	—	216,489	133,808	61.79%
Long-term liabilities.....	8,351,377	8,984,911	2,632,779	3,824,232	10,984,156	12,809,143	(14.25%)
Other liabilities.....	5,028,412	5,622,920	462,752	393,657	5,491,164	6,016,577	(8.73%)
Total liabilities.....	13,379,789	14,607,831	3,095,531	4,217,889	16,475,320	18,825,720	(12.49%)
Net position:							
Net investment in capital assets.....	42,197,283	40,394,260	433,740	410,031	42,631,023	40,804,291	4.48%
Restricted.....	863,707	852,901	894	995	864,601	853,896	1.25%
Unrestricted.....	(2,181,244)	(3,042,454)	1,035,602	(250,294)	(1,145,642)	(3,292,748)	65.21%
Total net position.....	\$ 40,879,746	\$ 38,204,707	\$ 1,470,236	\$ 160,732	\$ 42,349,982	\$ 38,365,439	10.39%

The largest component of the State's net position (\$42.63 billion) 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. Restricted net position is the next largest component (\$864.6 million). Net position is restricted when constraints placed on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net position, consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The government-wide statement of net position for governmental activities reflects a negative \$2.18 billion unrestricted net position balance. The State of North Carolina, like many other state and local governments, 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 \$6.95 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2014, \$4.7 billion is attributable to debt issued as state aid to component units (universities and community colleges) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. The policy of issuing bonded debt and distributing the cash proceeds to non-primary government (non-state) entities has been in place for decades. 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, 2014, the State's governmental activities have significant unfunded liabilities for compensated absences of \$420.59 million, worker's compensation of \$177.71 million, and a court judgment payable of \$741.7 million (see Note 8 to the financial statements). In 2008, a Superior Court judge ruled that certain civil fines and penalties should have been remitted to North Carolina public schools and not diverted to other uses. These unfunded liabilities also contribute to the negative unrestricted net position balance for governmental activities.

The State's overall net position increased \$3.98 billion or 10.39% (total primary government) from the prior fiscal year. The net position of the governmental activities increased \$2.68 billion or 7% and business-type activities increased \$1.31 billion or 814.71%. The following financial information was derived from the government-wide Statement of Activities:

Changes in Net Position
(dollars in thousands)

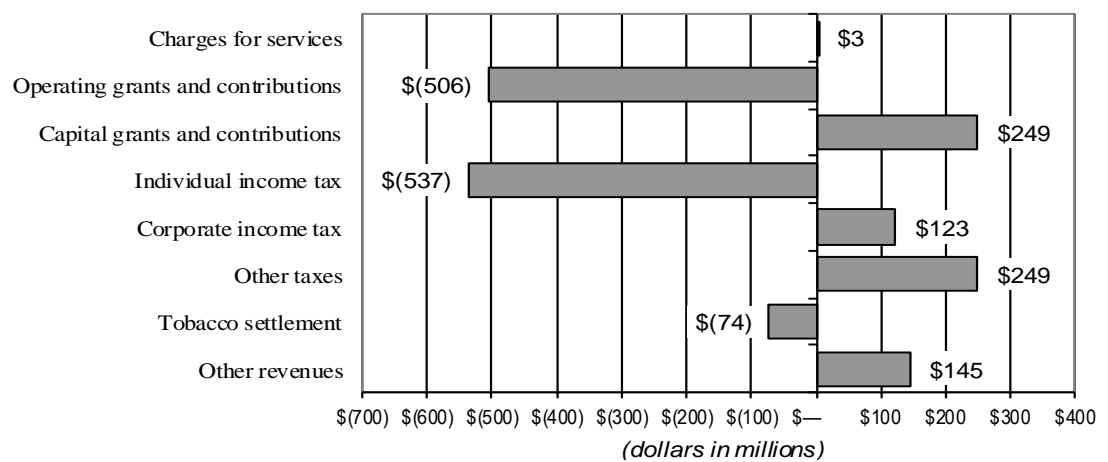
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2013-2014
	2014	2013 (as restated)	2014	2013 (as restated)	2014	2013 (as restated)	
Revenues							
Program revenues							
Charges for services.....	\$ 2,203,713	\$ 2,200,904	\$ 3,659,205	\$ 3,386,085	\$ 5,862,918	\$ 5,586,989	4.94%
Operating grants and contributions.....	15,261,306	15,767,596	346,581	1,423,525	15,607,887	17,191,121	(9.21%)
Capital grants and contributions.....	1,260,306	1,010,889	11,942	21,109	1,272,248	1,031,998	23.28%
General revenues							
Taxes:							
Individual income tax.....	10,576,575	11,113,597	—	—	10,576,575	11,113,597	(4.83%)
Corporate income tax.....	1,318,091	1,194,850	—	—	1,318,091	1,194,850	10.31%
Sales and use tax.....	5,839,362	5,556,484	—	—	5,839,362	5,556,484	5.09%
Gasoline tax.....	1,907,803	1,889,439	—	—	1,907,803	1,889,439	0.97%
Franchise tax.....	888,815	845,130	—	—	888,815	845,130	5.17%
Highway use tax.....	596,801	555,581	—	—	596,801	555,581	7.42%
Insurance tax.....	476,402	540,844	—	—	476,402	540,844	(11.92%)
Beverage tax.....	342,784	330,918	—	—	342,784	330,918	3.59%
Inheritance tax.....	—	113,721	—	—	—	113,721	(100.00%)
Tobacco products tax.....	273,426	287,340	—	—	273,426	287,340	(4.84%)
Other taxes.....	348,938	305,726	—	—	348,938	305,726	14.13%
Tobacco settlement.....	139,169	213,078	—	—	139,169	213,078	(34.69%)
Unrestricted investment earnings.....	19,452	13,621	—	—	19,452	13,621	(42.81%)
Miscellaneous.....	184,502	44,837	3	7	184,505	44,844	311.44%
Total revenues.....	41,637,445	41,984,555	4,017,731	4,830,726	45,655,176	46,815,281	(2.48%)
Expenses							
General government.....	1,076,898	1,034,277	—	—	1,076,898	1,034,277	4.12%
Primary and secondary education.....	9,772,994	9,830,464	—	—	9,772,994	9,830,464	(0.58%)
Higher education.....	3,901,543	3,986,465	—	—	3,901,543	3,986,465	(2.13%)
Health and human services.....	17,812,888	18,313,335	—	—	17,812,888	18,313,335	(2.73%)
Economic development.....	420,464	595,248	—	—	420,464	595,248	(29.36%)
Environment and natural resources.....	484,718	515,496	—	—	484,718	515,496	(5.97%)
Public safety, corrections and regulation.....	2,911,146	2,907,980	—	—	2,911,146	2,907,980	0.11%
Transportation.....	2,607,663	2,490,991	—	—	2,607,663	2,490,991	4.68%
Agriculture.....	191,242	187,608	—	—	191,242	187,608	1.94%
Interest on long-term debt.....	216,521	233,606	—	—	216,521	233,606	(7.31%)
Unemployment compensation.....	—	—	700,190	2,496,445	700,190	2,496,445	(71.95%)
N.C. State Lottery.....	—	—	1,341,219	1,215,944	1,341,219	1,215,944	10.30%
EPA Revolving Loan.....	—	—	27,789	23,711	27,789	23,711	17.20%
N.C. Turnpike Authority.....	—	—	88,278	95,897	88,278	95,897	(7.94%)
Regulatory programs.....	—	—	75,734	76,447	75,734	76,447	(0.93%)
Insurance programs.....	—	—	18,427	17,591	18,427	17,591	4.75%
North Carolina State Fair.....	—	—	13,957	13,441	13,957	13,441	3.84%
Other business-type activities.....	—	—	12,823	13,400	12,823	13,400	(4.31%)
Total expenses.....	39,396,077	40,095,470	2,278,417	3,952,876	41,674,494	44,048,346	(5.39%)
Increase (decrease) in net position							
before contributions and transfers.....	2,241,368	1,889,085	1,739,314	877,850	3,980,682	2,766,935	43.87%
Contributions to permanent funds.....	3,861	2,834	—	—	3,861	2,834	36.24%
Transfers.....	429,810	448,733	(429,810)	(448,733)	—	—	0.00%
Increase (decrease) in net position.....	2,675,039	2,340,652	1,309,504	429,117	3,984,543	2,769,769	43.86%
Net position - beginning - restated.....	38,204,707	35,864,055	160,732	(268,385)	38,365,439	35,595,670	7.78%
Net position - ending.....	<u>\$ 40,879,746</u>	<u>\$ 38,204,707</u>	<u>\$ 1,470,236</u>	<u>\$ 160,732</u>	<u>\$ 42,349,982</u>	<u>\$ 38,365,439</u>	<u>10.39%</u>

Governmental Activities

For fiscal year 2014, revenues outpaced expenses and when combined with transfers from the State’s business-type activities, an increase in net position of \$2.68 billion (or 7%) resulted for governmental activities. Total revenues decreased by 0.83% (\$347.11 million) while total expenses decreased more rapidly at 1.74% (\$699.39 million). The decrease in total revenues is attributable to major tax changes enacted by the General Assembly, which included a reduction in individual income and corporate income tax rates (effective January 1, 2014) and a repeal of the estate tax (effective January 1, 2013). Also operating grants and contributions decreased primarily because of reduced spending in federally supported programs.

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2013 and 2014:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2013 and 2014

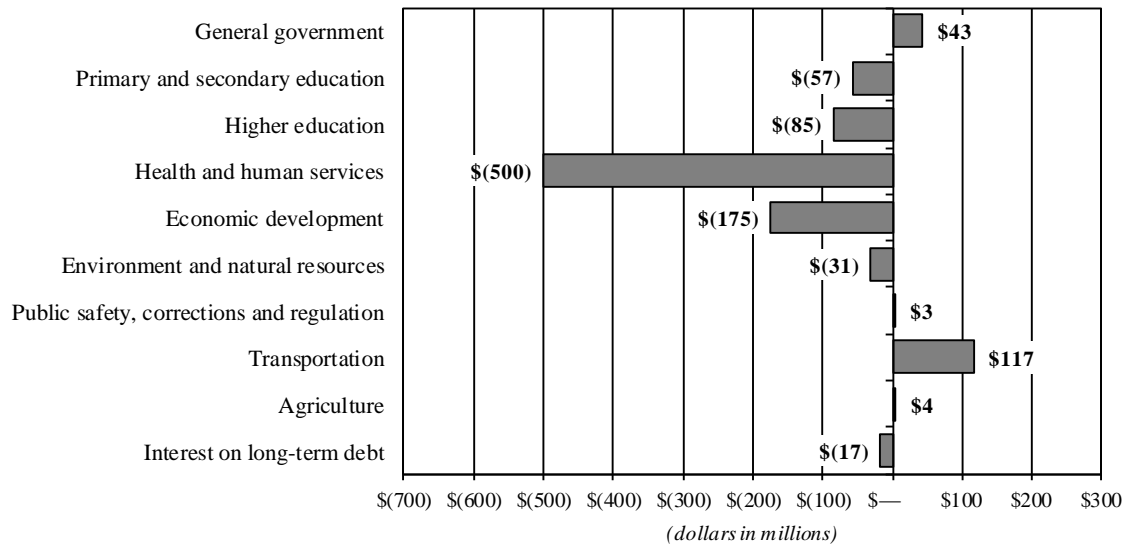


For fiscal year 2014, spending increases in the functional areas of transportation and general government were more than offset by spending decreases in health and human services, economic development, and the State’s other functional areas. The decrease in health and human services is primarily due to decreased spending for Medicaid (the State’s largest public assistance program). A new Medicaid management information system (NC Tracks), which maximizes paperless processing and improves administrative efficiency, became operational on July 1, 2013. The decrease in economic development is due to State funding reductions to grantees and the transfer of the infrastructure portion of the Community Development Block Grant program from the Department of Commerce to the Department of Environment and Natural Resources. Higher education spending decreased during the current period due to reductions in State appropriations and also to larger distributions of higher education bond proceeds in fiscal year 2013.

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.

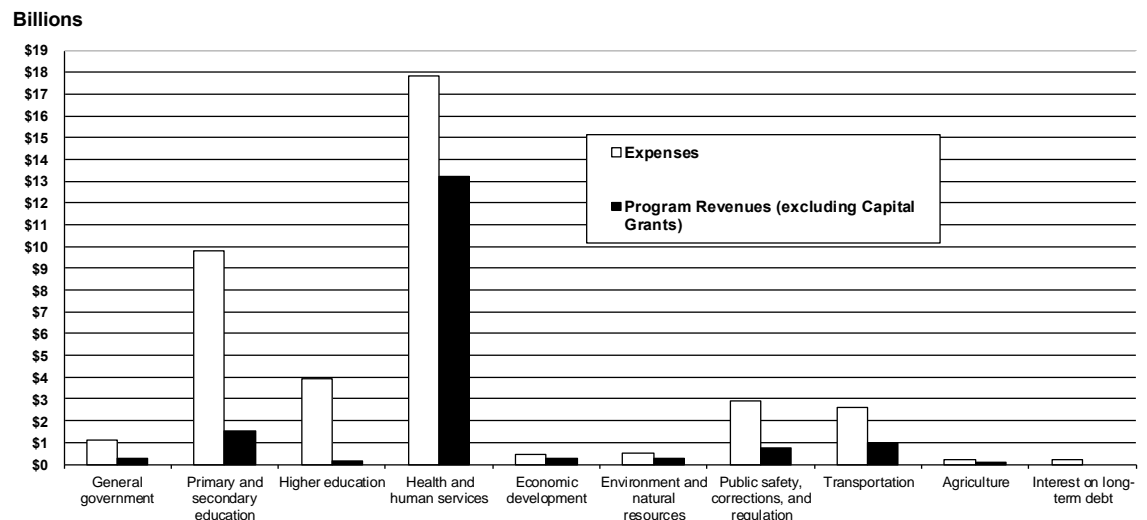
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2013 and 2014:

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2013 and 2014**



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, 2014**



Business-type Activities

Business-type activities reflect an overall increase in net position of \$1.31 billion or 814.71%, primarily because of the financial results of the Unemployment Compensation Fund. The net position increase of \$1.19 billion in the Unemployment Compensation Fund is explained by the drop in the State’s unemployment rate. The net position increase of \$8.35 million for the N.C. Turnpike Authority is due primarily to transfers in from the Highway Trust Fund. The net position increase of \$99.53 million in the EPA Revolving Loan Fund is due 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, 2014, the State's governmental funds reported combined fund balances of \$4.24 billion, an increase of 10.44% from the prior fiscal year-end (as restated). Of this amount, \$195.24 million 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 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 \$245.67 million (or 18.93%) to \$1.54 billion at June 30, 2014. In fiscal year 2013-14, the State collected \$452.6 million less in revenues than had been forecast, largely due to under collections in individual income taxes. Individual income tax collections were lower than expected due to unexpectedly slow wage and salary growth, timing of taxpayer adjustments in tax laws, and larger than expected shifts in taxpayer income from the anticipated expiration of federal tax cuts (see below section, *Variances - Final Budget and Actual Results*, for more information). General Fund tax refunds, however, were significantly lower than the previous year. The improvement in the economy, as represented by the State's lower unemployment rate, has been shown historically to be related to lower refund ratios.

For fiscal year 2013-14, individual income tax decreased by 4.81% while sales and use tax and corporate tax revenues increased by 5.11% and 8.76%, respectively. The decrease in individual income tax was the result of changes to the North Carolina revenue laws that took effect for tax years beginning January 1, 2014. Prior to the 2014 tax year, the State individual income tax due was computed using a multi-tiered bracket system with tax rates of 6%, 7%, and 7.75%. Effective for the tax year beginning January 1, 2014, the State individual income tax rate is 5.8% for all individual income tax taxpayers in North Carolina. Individuals may no longer claim personal exemptions on the North Carolina individual income tax return, and many of the tax credits were repealed or expired. The growth in corporate income tax was due, in part, to a decrease in refunds explained above. However, the growth in corporate taxes was partially offset by a decrease in the corporate tax rate. North Carolina revenue law changes reduced the corporate tax rate from 6.9% to 6%, effective for tax year January 1, 2014. Some of the increase in sales and use tax was attributable to North Carolina revenue laws that expanded the sales and use tax base, but most of the increase was due to improved economic conditions.

One of the major budget drivers for the General Fund, historically, has been the Medicaid Program. Medicaid enrollment increased 8.5% in fiscal year 2013-14 to 1.73 million (or 17.4% of North Carolina's population). The enrollment growth was partially attributable to children that were transferred from the Health Insurance Program for Children to Medicaid. One of the major goals of the biennial budget passed during the 2013 Session was to avoid future Medicaid shortfalls by providing an appropriate factor for growth. However, despite efforts to avoid a budget shortfall, the General Assembly was again required to identify savings to provide additional funds for the Medicaid Program. The total estimated Medicaid budget shortfall for fiscal year 2013-14 of \$81.7 million was substantially less than the previous year's shortfall of \$496 million. Specific actions taken during the current period to mitigate growing population and expenditures in Medicaid included prior authorization for mental health drugs and other pharmacy improvements, rate reductions, modifications to hospital reimbursement, and increased retention of revenues generated by hospital assessments.

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.

Variances – 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 2013-14 was prepared approximately 18 months prior to the final budget existing on June 30, 2014. 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 2013 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 2013-14 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. This also led to the necessity of budgeting unanticipated required state match.
- 2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2012-13 totaled \$214.13 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) Receipt and budgeting of over-realized receipts, prior year earned revenues, and unanticipated donations and grants.

Variances - Final Budget and Actual Results

Actual total revenue collected (both tax and non-tax) was modestly below budgeted revenue amounts in fiscal year 2013-14. This result occurred because of revenue timing assumptions in the consensus economic and revenue forecast related to federal and state tax changes. In particular, the forecast underestimated the effects of 2012 federal tax changes that shifted capital gains revenue between fiscal

year 2012-13 and 2013-14. It also did not fully anticipate the timing of significant state tax law changes enacted during fiscal year 2013-14. More specifically, individual income tax rate reductions had a greater immediate impact on collections than anticipated. Taken together, these factors translated into lower than expected individual income tax collections. This was partially offset by stronger than anticipated corporate income tax and sales and use tax collections.

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

Highway Fund

The Highway Fund dates back to 1921, when the General Assembly first imposed the gasoline tax. It accounts for most of the activities of the North Carolina Department of Transportation (NCDOT), including the maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles, the State Highway Patrol, transit, rail and ferry system. The primary revenue sources of the Highway Fund are federal funds, three-fourths of gasoline taxes, vehicle registration fees, and driver's license fees.

The fund balance of the Highway Fund decreased from \$343.99 million at June 30, 2013 (as restated) to \$214.87 million at June 30, 2014, a decrease of 37.53%. While the Highway Fund saw a higher increase in revenues than the previous fiscal year, expenditures still exceeded revenues resulting in a decrease in overall fund balance. Total revenues increased 7.89% to \$3.55 billion, mostly due to an increase in federal funds. An increased effort on closing and finalizing federal projects and billing of funds prior to expiration resulted in an overall increase in federal revenues. Total expenditures were \$3.49 billion, an increase of 2.77%. A focus on transportation infrastructure maintenance and preservation, including bridge preservation, contributed to this increase.

The State issued \$179.54 million in grant anticipation revenue vehicle bonds (GARVEE's) in January 2012. This innovative financing tool was used to accelerate the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2014, all GARVEE proceeds had been expended.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.05 million in 2000 to 9.94 million in 2014, an increase of 23.48%. The U.S. Census estimates North Carolina's population growing to approximately 12.2 million by 2030, which would place the State as the seventh most populated state in the country. According to the 2012 Report on the Condition of the State Highway System prepared by the N.C. Division of Highways, over a 10-year period (2002 to 2011), paved lane miles grew by 10% while bridge deck area grew by approximately 21%. During this same 10-year period, vehicle miles traveled increased by 12%. While the recent recession slowed the growth in vehicle miles traveled, current rates indicate a return to pre-recession levels. 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, and other highways such as the interstate highway system, which is approaching its 60th anniversary, are nearing the end of their functional life.

Transportation is fundamental in continuing North Carolina's prosperity and quality of life as the state's population continues to grow. To address the growing demand on the transportation system, increased cost of supplies, and declining funding, NCDOT continues to seek innovative solutions to meet the growing stress on the transportation system. In response to declining motor fuels tax and the decreasing purchasing power of the Highway Fund, Session Law 2009-108 repealed the cap on the motor fuels tax and set the variable portion of the tax at 12.4 cents per gallon or 7% of the average wholesale price whichever is greater, thus setting a floor of 29.9 cents per gallon. This remained in place through June 30, 2011. Subsequent legislation reinstated and continued the cap on the motor fuels tax at a rate of 37.5 cents per gallon until June 30, 2015.

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 the State's general obligation bonds issued for highway purposes.

The principal revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees. The enabling legislation also specifies that a designated amount will be transferred each year to the General Fund. The legislation was amended in 2008 to also 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 amount transferred to the General Fund for fiscal year 2013 was \$27.6 million. The budget legislation for fiscal year 2014 reduced the designated transfer amount to the General Fund to \$0.

The fund balance of the Highway Trust Fund increased from \$609.23 million at June 30, 2013 (as restated) to \$878.12 million at June 30, 2014, an increase of 44.14%. The fund balance increase was primarily due to continued growth in new car sales which led to an increase in the highway use tax. Gasoline consumption also rose slightly from the previous year contributing to the overall increase. Total revenues increased 4.66% to \$1.18 billion, primarily due to the overall increase in the highway use tax explained above. Total transportation expenditures were \$817.71 million, an increase of 7.6%. The initial phase of the Strategic Prioritization Funding Plan along with increased activity in both urban loop construction and secondary road construction contributed to the overall increase in expenditures for the year.

The 2012 Report on the Condition of the State Highway System also noted that since passage of the Highway Trust Fund in 1989, the NCDOT has paved over 13,000 miles of unpaved secondary roads, leaving only 4,357 miles of secondary roads to be paved. In view of the fact that 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. Beginning with fiscal year 2010-11, 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 slated after July 1, 2015 will be prioritized on a statewide basis instead of a county-wide basis.

Session Law 2013-183 amends the Highway Trust Fund allocation of resources creating the Strategic Prioritization Funding Plan. Scheduled to be fully implemented by July 1, 2015, it eliminates individually legislated projects and implements a new way for NCDOT to fund and prioritize necessary infrastructure improvements while utilizing existing revenue sources more efficiently.

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 negative \$370.52 million at June 30, 2014 compared to negative \$1.56 billion at June 30, 2013. The improvement in net position is explained by 1) the drop in the State's unemployment rate from 8.8% in June 2013 to 6.4% in June 2014, 2) an additional increase in the Federal Unemployment Tax Act (FUTA) tax, and 3) the implementation of Session Law 2013-2. This law generated additional revenue by increasing state unemployment taxes on employers and decreased expenses by reducing the maximum weekly benefit amount and the maximum duration of unemployment benefits. The Trust Fund's operating margin (operating revenues less operating expenses) was positive for the first time since fiscal year 2008, rising to \$1.02 billion this year compared to negative \$891.32 million in 2013. Employer unemployment contributions increased 9.72% to \$1.62 billion in 2014 due to increases to state (S.L. 2013-2) and Federal (described below) unemployment taxes on employers. Unemployment benefit expenses, both

State and Federal, decreased 73.92% from \$2.43 billion in 2013 to \$632.91 million in fiscal year 2014, due to claimants exhausting their maximum allowable benefits, a reduction in the number of new claimants, and the implementation of S.L. 2013-2 (described above).

In fiscal year 2013-14, nonoperating revenues decreased 82.36% to \$234.42 million, due to significant reductions in federal funding. The federal Emergency Unemployment Compensation (EUC) program provided \$446 thousand in benefits this fiscal year compared to \$1.19 billion last year. Funding for Federal unemployment programs is received on a reimbursement basis, so the decrease in federal EUC benefits resulted in the decrease in noncapital grants revenue.

Since February 2009, the State has borrowed from the U.S. Treasury to ensure the uninterrupted payment of State unemployment benefits. At June 30, 2014, the repayable advances from the State's Federal Unemployment Account totaled \$980.99 million compared to \$2.15 billion at the previous fiscal year-end, a 54.47% decrease. For the tax year 2013, the FUTA tax increased by an additional 0.3% for a total increase of 0.9% because the State had an outstanding loan as of November 10, 2013. The funds generated from this federal tax increase go directly towards paying down the loan (i.e., Federal unemployment account advances). The additional federal taxes paid by the State's employers this fiscal year, which were used to reduce the loan balance, was \$233.46 million (classified as gain on extinguishment of debt). The FUTA tax will increase by 0.3% for each succeeding year until the loan is repaid.

The interest rate for calendar year 2014 was 2.39%. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. The required interest payment of \$35.3 million was made on September 30, 2014. A 20% surcharge on unemployment contributions, which has been in effect since January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is deposited into the State Reserve Fund and one of the allowable uses is to pay the interest on the borrowing. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger "off" level.

N.C. State Lottery Fund

The N.C. Education Lottery (NCEL) first began selling game tickets in 2006. As required by the enabling legislation, net revenues of the NCEL are transferred four times a year to the General Fund. The NCEL transferred \$503.14 million to the General Fund in 2014 to support educational programs for the State. The amount transferred in 2013 was \$478.51 million. At year end, the net position of the NCEL was zero. The NCEL has no changes in the net position from year to year.

For fiscal year 2013-14, net ticket sales increased 8.85% from the previous fiscal year to \$1.84 billion. Significant financial highlights include the following: awarded \$1 million or more to an NCEL player for the 172nd time; and released 46 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.17 billion.

The NCEL's 2014-15 budget provides for a projected \$521 million transfer to the General Fund, representing a 12.7% increase from the previous year's budget. As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 67% 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.
2. 23% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

N.C. Turnpike Authority

The North Carolina Turnpike Authority (NCTA) was created in 2002 by the General Assembly in response to concerns about rapid growth, heavy congestion and dwindling resources. It is authorized to study, plan, develop, construct, operate and maintain up to nine turnpike projects.

Major accomplishments for the NCTA for fiscal year 2013-14 included the following:

- The Triangle Expressway System, the State's first modern toll road, is approximately 18.8 miles of new highway construction. The project was constructed and opened in three phases. The third and final phase opened to toll traffic on January 2, 2013. The Triangle Expressway project was delivered on schedule and under budget. Consequently, total operating revenues increased 83.16% to \$24.73 million primarily due to the increase in toll revenues. Sales of transponders peaked with the opening of the final phase in January 2013 and remained steady through the end of fiscal year 2014.
- The NCTA has completed the financing for the Monroe Connector System, a 20-mile toll road in Mecklenburg and Union counties. However, construction has been delayed due to litigation challenging the project's environmental documentation.

Net position for NCTA increased 3.11% to \$276.77 million in 2014. The NCTA continues to show a loss before capital contributions and transfers. Increases in toll revenue are offset by increases in depreciation expense, which is then driven further negative by interest and fees. However, net position continues to increase due to continued transfers from the Highway Trust Fund for gap funding of debt service and funds for the Federal Highway Administration (FHWA) match; and capital grants (funds received from the FHWA and the Highway Trust Fund for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility).

Funding for administrative expenses is advanced as needed from the Highway Trust Fund to be repaid from NCTA revenue collections. Interest began to accrue on the advance on January 1, 2014 (one year after the NCTA began collecting tolls on the completed turnpike project).

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, known as gap funding. 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 fiscal year 2014, the N.C. General Assembly appropriated \$49 million annually for the Triangle Expressway and Monroe Connector projects.

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 7.63% to \$1.4 billion in 2014. This increase in net position is due to the Loan Fund focusing 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 exceeded total amount of principal repaid on the existing loans which resulted in an increase to notes receivable. However, the total amount of loans issued to municipalities was less than the total amount repaid and the total amount of grants received from the U.S. EPA, resulting in an increase to cash. Operating income was \$15.08 million (operating revenues less operating expenses), and net non-operating revenues were \$70.67 million. Net non-operating revenues consisted primarily of noncapital grants (federal capitalization grants). Noncapital grants increased 28.23% to \$88.92 million. Noncapital grants increased primarily because the U.S. EPA requested that states focus on using federal capitalization grant funds for infrastructure projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the State's investment in capital assets was \$45.64 billion, an increase of 3.93% 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	
	2014	2013 (as restated)	2014	2013 (as restated)	2014	2013 (as restated)
Land and permanent easements.....	\$ 16,216,176	\$ 15,662,140	\$ 159,493	\$ 154,884	\$ 16,375,669	\$ 15,817,024
Buildings.....	2,774,775	2,770,566	32,765	31,821	2,807,540	2,802,387
Machinery and equipment.....	608,327	586,042	6,738	6,663	615,065	592,705
Infrastructure:						
State highway system.....	21,896,274	21,062,977	—	—	21,896,274	21,062,977
NC toll road system.....	—	—	778,576	794,705	778,576	794,705
Other infrastructure.....	167,716	161,260	4,645	4,976	172,361	166,236
Computer software.....	260,710	29,310	12	26	260,722	29,336
Art, literature, and other artifacts.....	104,296	99,179	—	—	104,296	99,179
Construction in progress.....	2,072,576	1,923,523	207,003	167,671	2,279,579	2,091,194
Computer software in development.....	345,132	453,560	—	—	345,132	453,560
Total.....	<u>\$ 44,445,982</u>	<u>\$ 42,748,557</u>	<u>\$ 1,189,232</u>	<u>\$ 1,160,746</u>	<u>\$ 45,635,214</u>	<u>\$ 43,909,303</u>
Total percent change between fiscal years 2013 and 2014	3.97 %		2.45 %		3.93 %	

The largest component of capital assets is the state highway system. North Carolina has a 79,578 mile highway system, making it the second largest state-maintained highway system in the nation. The most recent report on the condition of the state highway system (December 2012) noted that while the system continues to grow, the traditional highway maintenance funds have increased, but not enough to keep up with inflation and system growth.

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 \$1.61 billion (including land improvements) for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$135 million for the Monroe Connector System, a toll project in eastern Mecklenburg County.
- 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. At year-end, construction in progress for Cherry Hospital and Broughton Hospital totaled \$203 million. The new hospitals are being financed by special indebtedness bonds.
- DHHS is also replacing major legacy IT systems. NC Tracks, the new multi-payer Medicaid Management Information System, became operational on July 1, 2013 (total development cost of \$237 million). This system facilitates provider enrollment, consolidates claims processing activities, and supports healthcare administration. 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 \$248 million.

As further detailed in Note 21(E) to the financial statements, the State has commitments of \$3.59 billion for the construction of highway infrastructure, which are expected to be financed by gasoline tax collections, motor vehicle fees, toll collections, federal funds, and debt proceeds. Other commitments of \$514.85 million for the construction and improvement of state government facilities are expected to be financed primarily by debt proceeds, state appropriations, and federal funds. 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 \$7.99 billion, a decrease of 7.1% 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	
	2014	2013	2014	2013	2014	2013
General obligation bonds.....	\$ 3,607,100	\$ 3,999,580	\$ —	\$ —	\$ 3,607,100	\$ 3,999,580
Special Indebtedness:						
Lease-purchase revenue bonds.....	4,125	20,915	—	—	4,125	20,915
Certificates of participation.....	247,615	508,500	—	—	247,615	508,500
Limited obligation bonds.....	2,132,085	1,993,740	—	—	2,132,085	1,993,740
GARVEE bonds.....	395,275	454,820	145,535	145,535	540,810	600,355
Revenue bonds.....	—	—	1,039,308	1,058,458	1,039,308	1,058,458
Notes payable.....	39,738	39,312	376,869	377,466	416,607	416,778
Total	<u>\$ 6,425,938</u>	<u>\$ 7,016,867</u>	<u>\$ 1,561,712</u>	<u>\$ 1,581,459</u>	<u>\$ 7,987,650</u>	<u>\$ 8,598,326</u>
Total percent change between fiscal years 2013 and 2014	(8.42)%		(1.25)%		(7.1)%	

During the 2013-14 fiscal year, the State issued \$506.26 million in refunding bonds to refinance previously outstanding general obligation and limited obligation bonds reported in governmental activities. This refinancing was done to take advantage of favorable interest rates. The result is expected to be a decrease in future debt service payments of \$53.3 million.

The State issues two types of tax-supported debt: general obligation bonds and various types of “special indebtedness” (i.e., debt not subject to a vote of the people). General obligation 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 GARVEEs 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 in recent years, rising from \$3.48 billion in 2002 to \$6.43 billion in 2014, in part due to large issuances 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 \$1.56 billion in 2014.

The following is a summary of significant debt authorizations.

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 has not issued any of the two-thirds bonds that were authorized by the General Assembly.

Special Indebtedness

The 2009-10 Session of the General Assembly reduced special indebtedness authorizations for various projects by over \$115 million to generate additional debt capacity and increased authorizations for guaranteed energy savings contracts by \$400 million. The 2008-09 Session of the General Assembly authorized the issuance of \$734.03 million of special indebtedness as follows: \$512.22 million for higher education projects, \$109.09 million for correctional facilities, \$50 million for acquiring state park lands and conservation areas, and \$62.72 million for other state projects. The 2007-08 Session of the General Assembly authorized the issuance of special indebtedness as follows: \$481.14 million for higher education projects and \$188.01 million for other purposes. The 2006-07 Session of the General Assembly authorized the issuance of \$672.1 million of special indebtedness as follows: \$429.3 for psychiatric hospitals and a public health laboratory for the Department of Health and Human Services, \$132.2 million for medical and mental health centers for the Department of Correction, and \$110.6 million for other state and university projects. More detailed information about the amount of authorized but unissued special indebtedness of the State is presented in Note 8 to the financial statements.

Repair and Renovation Authorization

The 2002-03 Session of the General Assembly authorized the issuance of \$300 million of special indebtedness to finance the repair and renovation of state facilities and related infrastructure that are supported by the State's General Fund. Of the \$300 million, approximately \$157 million was allocated to the University of North Carolina (UNC) System. Each of the 16 constituent institutions of the UNC System received a portion of the proceeds for repairs and renovations. The remaining \$143 million of the proceeds was used to make repairs and renovations to various state facilities. The State has issued all of the authorized repair and renovation debt.

Higher Education Authorization

The 1999-00 Session of the General Assembly authorized the issuance of \$3.1 billion of higher education improvement bonds, which were subsequently approved by the voters of the State. The \$3.1 billion bond authorization represents the largest debt authorization in the State's history. The proceeds of these general obligation bonds were used solely to construct new buildings and to renovate and modernize existing buildings on the State's 58 community college and 16 University of North Carolina campuses. These improvements were needed to meet enrollment demands and to ensure that the State's college and university buildings meet modern code requirements and are equipped to prepare graduates for 21st century jobs. The bond legislation passed by the General Assembly specifies the amount of bond funding that flows to each community college and university campus. The State has issued all of the authorized higher education bonds.

Clean Water and Natural Gas Authorization

The 1997-98 Session of the General Assembly authorized the issuance of \$1 billion of clean water and natural gas general obligation bonds, which were subsequently approved by the voters of the State. The proceeds of these bonds were used to provide grants and loans to local governments for clean water projects (\$800 million) and to provide grants and loans for construction of natural gas facilities to facilitate the expansion of natural gas service to unserved areas of the State (\$200 million). The State has issued all of the authorized clean water and natural gas bonds.

Highway Bond Authorization

The 1995-96 Session of the General Assembly authorized the issuance of \$950 million of highway general obligation bonds, which were subsequently approved by the voters of the State. The bond proceeds were allocated to pay capital costs for urban loops (\$500 million), highways in the Intrastate System (\$300 million), and for paving unpaved roads of the secondary highway system (\$150 million). The State has issued all of the authorized highway bonds.

Credit Ratings

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. 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 2013-14 fiscal year, the State issued general obligation and limited obligation refunding bonds. In connection with the refundings, 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 top three rating agencies affirmed the triple-A rating on the General Obligation Refunding Bonds and assigned a rating at one level below triple-A to the Limited Obligation Bonds issued. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only ten 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

The 2014 Session of the General Assembly made adjustments to the second year of the General Fund biennial budget (i.e., fiscal year 2014-15). The initial biennial budget was enacted during the previous legislative session. The Appropriations Act of 2014 (Session Law 2014-100) addressed three major budgetary priorities by 1) responding to revenue under-collections in fiscal year 2013-14 and a downward revision in consensus revenue estimates for fiscal year 2014-15, 2) providing additional funding for the Medicaid Program, and 3) providing salary increases for State and public school employees and a retiree cost of living adjustment. The General Assembly also made technical and clarifying changes to the corporate income tax and imposed an excise tax of five cents per fluid milliliter on the consumable portion of vapor products, commonly referred to as electronic cigarettes (Session Law 2014-4).

The 2013 Session of the General Assembly enacted a variety of major tax changes in the biennial budget (Session Law 2013-316). The individual income tax rate was reduced from 5.8% in 2014 to 5.75% in 2015; the corporate income tax rate was reduced from 6% in 2014 to 5% in 2015. If state revenue targets are met, the corporate income tax rate will be further reduced to 4% in 2016 and 3% in 2017. The sales tax was expanded to include electricity and piped natural gas (effective July 1, 2014) and some service contracts, and entertainment activities (effective January 1, 2014). In addition, a number of special exemptions and preferential rates were repealed.

Escheats Fund

North Carolina's escheats policies date back to 1789 when the State Constitution called for transferring unclaimed property to the University of North Carolina. In 1970, voters approved a constitutional amendment moving the fund to the Department of State Treasurer. Per statutes, the interest earned on the Escheats Fund goes to the State Education Assistance Authority to pay for grants, loans and scholarships for North Carolina students attending public universities and community colleges. In addition, since 2003 the State has used the Escheat Fund's principal to fund student financial aid. The State Treasurer has cautioned the legislature that continued principal withdrawals will have a negative impact on the fund in the near term. At June 30, 2014, the Escheats Fund carried a fund balance of \$499.11 million. However, as the custodian of these funds, North Carolina remains liable to the rightful owners for the full amount of unclaimed property reported to the Department of State Treasurer. This includes an additional \$1.01 billion which has been reported since June 1971, but has been appropriated by the legislature from the Escheat Fund principal over the last 11 years.

State Health Plan

The Board of Trustees of the State Health Plan for Teachers and State Employees (SHP Board of Trustees) approved benefit changes to increase member options, encourage member engagement in healthy lifestyles, and constrain future State Health Plan costs. The new options went into effect January 1, 2014 and will continue in 2015.

The General Assembly enacted legislation (S.L. 2014-100) establishing a new health benefit eligibility category for nonpermanent full-time employees. This legislation was necessary to comply with the federal Patient Protection and Affordable Care Act (ACA), which requires employers to offer coverage to employees expected to work 30 or more hours per week. The legislation also directed the Treasurer and SHP Board of Trustees to establish a new health benefit plan option exclusively for these "newly eligible" employees that provides minimum essential coverage at no greater than the ACA "Bronze" level and that minimizes the employer contribution in an administratively feasible manner. The SHP Board of Trustees approved a High Deductible Health Plan design in August 2014 that meets the requirements of ACA and reduces monthly employer contributions to \$117.62, approximately \$330 less than the monthly employer contributions for permanent full-time employees. Eligible nonpermanent employees will be able to sign up for coverage under the new plan during open enrollment, and coverage will begin January 1, 2015.

Prison Closings

In connection with the Justice Reinvestment Act (Session Law 2011-192), five prisons closed during the 2013-14 fiscal year. This act made significant changes in the sentencing laws and correctional policies of the State. The intent of this legislation was to reduce spending on incarceration and to redirect the savings into community-based treatment alternatives that are proven to reduce criminality. Additional facilities will close, consolidate and be converted to different missions during the 2014-15 fiscal year as a result of the declining prison population.

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> .



*BASIC
FINANCIAL
STATEMENTS*

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*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET POSITION

June 30, 2014

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3).....	\$ 4,104,184	\$ 569,583	\$ 4,673,767	\$ 2,835,428
Investments (Note 3).....	264,857	165,291	430,148	3,353,495
Securities lending collateral (Note 3).....	763,593	134,558	898,151	—
Receivables, net (Note 4).....	3,284,029	692,740	3,976,769	1,415,097
Due from component units (Note 18).....	1,930	—	1,930	6,614
Due from primary government (Note 18).....	—	—	—	192,641
Internal balances.....	15,050	(15,050)	—	—
Inventories.....	188,733	1,084	189,817	129,709
Prepaid items.....	1,500	15,152	16,652	79,846
Advances to component units.....	4,326	—	4,326	—
Notes receivable, net (Note 4).....	81,372	980,131	1,061,503	3,612,285
Investment in joint venture.....	—	—	—	66,195
Equity interest in component unit.....	146,968	—	146,968	—
Securities held in trust.....	44,400	—	44,400	—
Pension assets (Note 12).....	6,176	—	6,176	—
Restricted/designated cash and cash equivalents (Note 3).....	369,819	2,702	372,521	2,496,455
Restricted investments (Note 3).....	320,127	830,344	1,150,471	5,525,962
Restricted due from primary government (Note 18).....	—	—	—	24,311
Restricted due from component units (Note 18).....	—	—	—	4,580
Capital assets-nondepreciable (Note 5).....	18,738,180	366,496	19,104,676	1,743,664
Capital assets-depreciable, net (Note 5).....	25,707,802	822,736	26,530,538	13,973,942
Total Assets	54,043,046	4,565,767	58,608,813	35,460,224
Deferred Outflows of Resources				
Accumulated decrease in fair value of hedging derivatives.....	—	—	—	122,798
Deferred loss on refunding.....	120,624	—	120,624	27,613
Forward funded state aid.....	95,865	—	95,865	—
Other deferred outflow.....	—	—	—	3,783
Total Deferred Outflows of Resources	216,489	—	216,489	154,194
Liabilities				
Accounts payable and accrued liabilities.....	1,492,983	150,171	1,643,154	1,019,379
Medical claims payable.....	852,380	—	852,380	232,676
Unemployment benefits payable.....	—	7,804	7,804	—
Tax refunds payable.....	1,188,612	—	1,188,612	—
Obligations under securities lending.....	764,153	135,550	899,703	—
Interest payable.....	54,735	130,335	185,070	62,533
Short-term debt (Note 6).....	—	—	—	40,331
Due to component units (Note 18).....	216,952	—	216,952	11,194
Due to primary government (Note 18).....	—	—	—	1,930
Unearned revenue.....	380,764	37,335	418,099	275,882
Advance from primary government.....	—	—	—	4,326
Deposits payable.....	4,056	1,557	5,613	14,483
Funds held for others.....	73,777	—	73,777	1,983,963
Hedging derivatives liability (Note 7).....	—	—	—	122,798
Long-term liabilities (Note 8):				
Due within one year.....	660,983	1,006,220	1,667,203	631,566
Due in more than one year.....	7,690,394	1,626,559	9,316,953	8,010,831
Total Liabilities	13,379,789	3,095,531	16,475,320	12,411,892
Deferred Inflows of Resources				
Deferred state aid.....	—	—	—	95,865

STATEMENT OF NET POSITION

June 30, 2014

Exhibit A-1

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Net Position				
Net investment in capital assets.....	42,197,283	433,740	42,631,023	10,901,768
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	101,278	—	101,278	—
Higher education.....	533	—	533	2,218,392
Expendable:				
Primary and secondary education.....	1,711	—	1,711	—
Higher education.....	504,150	—	504,150	4,334,296
Health and human services.....	22,549	—	22,549	41
Economic development.....	19,503	—	19,503	717,889
Environment and natural resources.....	47,717	—	47,717	—
Public safety, corrections, and regulation.....	50,406	—	50,406	—
Transportation.....	571	—	571	—
Other purposes.....	115,289	894	116,183	—
Unrestricted.....	(2,181,244)	1,035,602	(1,145,642)	4,934,275
Total Net Position.....	\$ 40,879,746	\$ 1,470,236	\$ 42,349,982	\$ 23,106,661

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2014

(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.....	\$ 1,076,898	\$ 242,809	\$ 23,420	\$ 2,223	\$ (808,446)
Primary and secondary education.....	9,772,994	8,641	1,517,315	—	(8,247,038)
Higher education.....	3,901,543	107,412	34,980	—	(3,759,151)
Health and human services.....	17,812,888	324,689	12,877,380	—	(4,610,819)
Economic development.....	420,464	19,802	252,696	—	(147,966)
Environment and natural resources.....	484,718	156,105	95,316	18,722	(214,575)
Public safety, corrections, and regulation.....	2,911,146	582,445	159,385	1,821	(2,167,495)
Transportation.....	2,607,663	730,048	266,454	1,231,469	(379,692)
Agriculture.....	191,242	31,762	34,360	6,071	(119,049)
Interest on long-term debt.....	216,521	—	—	—	(216,521)
Total Governmental Activities.....	<u>39,396,077</u>	<u>2,203,713</u>	<u>15,261,306</u>	<u>1,260,306</u>	<u>(20,670,752)</u>
Business-type Activities					
Unemployment Compensation.....	700,190	1,651,108	234,419	—	1,185,337
N.C. State Lottery.....	1,341,219	1,844,636	718	—	504,135
EPA Revolving Loan.....	27,789	22,603	90,936	—	85,750
N.C. Turnpike Authority.....	88,278	24,725	13,544	11,799	(38,210)
Regulatory programs.....	75,734	79,744	814	—	4,824
Insurance programs.....	18,427	10,780	4,565	—	(3,082)
North Carolina State Fair.....	13,957	14,828	527	90	1,488
Other business-type activities.....	12,823	10,781	1,058	53	(931)
Total Business-type Activities.....	<u>2,278,417</u>	<u>3,659,205</u>	<u>346,581</u>	<u>11,942</u>	<u>1,739,311</u>
Total Primary Government.....	<u>\$ 41,674,494</u>	<u>\$ 5,862,918</u>	<u>\$ 15,607,887</u>	<u>\$ 1,272,248</u>	<u>\$ (18,931,441)</u>
Component Units					
University of North Carolina System.....	\$ 10,525,753	\$ 6,891,268	\$ 1,630,483	\$ 176,366	\$ (1,827,636)
Community Colleges.....	2,203,868	305,363	915,597	221,339	(761,569)
State Health Plan.....	2,831,105	2,934,170	78,704	—	181,769
Other component units.....	981,704	546,729	481,145	2,684	48,854
Total Component Units.....	<u>\$ 16,542,430</u>	<u>\$ 10,677,530</u>	<u>\$ 3,105,929</u>	<u>\$ 400,389</u>	<u>\$ (2,358,582)</u>

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

STATEMENT OF ACTIVITIESFor the Fiscal Year Ended June 30, 2014
(Dollars in Thousands)

Exhibit A-2

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in Net Position				
Net (expense) revenue	\$ (20,670,752)	\$ 1,739,311	\$ (18,931,441)	\$ (2,358,582)
General Revenues:				
Taxes:				
Individual income tax.....	10,576,575	—	10,576,575	—
Corporate income tax.....	1,318,091	—	1,318,091	—
Sales and use tax.....	5,839,362	—	5,839,362	—
Gasoline tax.....	1,907,803	—	1,907,803	—
Franchise tax.....	888,815	—	888,815	—
Highway use tax.....	596,801	—	596,801	—
Insurance tax.....	476,402	—	476,402	—
Beverage tax.....	342,784	—	342,784	—
Tobacco products tax.....	273,426	—	273,426	—
Other taxes.....	348,938	—	348,938	—
Tobacco settlement.....	139,169	—	139,169	—
Unrestricted investment earnings.....	19,452	—	19,452	—
State aid.....	—	—	—	3,525,774
Miscellaneous.....	184,502	3	184,505	2,768
Contributions to permanent funds.....	3,861	—	3,861	—
Contributions to endowments.....	—	—	—	108,730
Transfers.....	429,810	(429,810)	—	—
Total general revenues, contributions, and transfers.....	23,345,791	(429,807)	22,915,984	3,637,272
Change in net position.....	2,675,039	1,309,504	3,984,543	1,278,690
Net position — July 1, as restated (Note 23).....	38,204,707	160,732	38,365,439	21,827,971
Net position — June 30.....	\$ 40,879,746	\$ 1,470,236	\$ 42,349,982	\$ 23,106,661

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*FUND FINANCIAL
STATEMENTS*

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2014

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).....	\$ 2,018,474	\$ 411,886	\$ 837,169	\$ 746,973	\$ 4,014,502
Investments (Note 3).....	5,628	—	—	228,946	234,574
Securities lending collateral (Note 3).....	492,035	56,933	105,547	101,763	756,278
Receivables, net: (Note 4)					
Taxes receivable.....	1,841,265	129,062	44,305	2,183	2,016,815
Accounts receivable.....	246,648	15,219	82	22,159	284,108
Intergovernmental receivable.....	909,702	70,850	—	871	981,423
Interest receivable.....	4,193	227	306	301	5,027
Other receivables.....	—	4,287	—	—	4,287
Due from other funds (Note 10).....	5,356	—	62	7,063	12,481
Due from component units (Note 18).....	—	1,224	—	—	1,224
Inventories.....	73,958	88,036	—	26,481	188,475
Advances to other funds (Note 10).....	—	—	24,495	—	24,495
Advances to component units.....	—	4,326	—	—	4,326
Notes receivable, net (Note 4).....	39,498	780	58	41,036	81,372
Securities held in trust.....	396	921	—	43,083	44,400
Restricted/designated cash and cash equivalents (Note 3).....	85,363	—	—	284,456	369,819
Restricted investments (Note 3).....	—	4,086	—	316,041	320,127
Total Assets.....	5,722,516	787,837	1,012,024	1,821,356	9,343,733
Deferred Outflows of Resources					
Forward funded state aid.....	36,005	—	—	59,860	95,865
Total Assets and Deferred Outflows.....	\$ 5,758,521	\$ 787,837	\$ 1,012,024	\$ 1,881,216	\$ 9,439,598
Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 128,165	\$ 274,358	\$ 24,403	\$ 43,247	\$ 470,173
Accrued payroll.....	3,282	42,057	—	139	45,478
Intergovernmental payable.....	686,489	154,112	—	5,339	845,940
Claims payable.....	—	—	—	52,500	52,500
Medical claims payable.....	852,380	—	—	—	852,380
Tax refunds payable.....	1,181,509	5,327	1,776	—	1,188,612
Obligations under securities lending.....	491,837	55,854	107,723	101,406	756,820
Due to fiduciary funds (Note 10).....	83,486	6,999	—	—	90,485
Due to other funds (Note 10).....	37,951	4,687	—	650	43,288
Due to component units (Note 18).....	192,641	—	—	24,311	216,952
Unearned revenue.....	353,668	16,934	—	2,138	372,740
Deposits payable.....	4,052	—	—	4	4,056
Funds held for others.....	19,559	11,039	—	43,179	73,777
Total Liabilities.....	4,035,019	571,367	133,902	272,913	5,013,201
Deferred Inflows of Resources					
Unavailable revenue.....	179,966	1,598	—	2,531	184,095
Fund Balances (Note 11)					
Nonspendable.....	73,958	88,036	—	128,492	290,486
Restricted.....	83,885	4,638	—	763,810	852,333
Committed.....	907,176	122,198	878,122	713,470	2,620,966
Assigned.....	283,280	—	—	—	283,280
Unassigned.....	195,237	—	—	—	195,237
Total Fund Balances.....	1,543,536	214,872	878,122	1,605,772	4,242,302
Total Liabilities, Deferred Inflows and Fund Balances.....	\$ 5,758,521	\$ 787,837	\$ 1,012,024	\$ 1,881,216	\$ 9,439,598

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, 2014

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) \$ 4,242,302

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

<ul style="list-style-type: none"> – Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of: <table style="margin-left: 20px; width: 80%;"> <tr> <td>Cost of capital assets (excluding internal service funds).....</td> <td style="text-align: right;">\$ 44,986,227</td> <td></td> </tr> <tr> <td>Less: Accumulated depreciation (excluding internal service funds).....</td> <td style="text-align: right;">(641,858)</td> <td></td> </tr> <tr> <td>Net capital assets.....</td> <td></td> <td style="text-align: right;">44,344,369</td> </tr> </table> – 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. 184,095 – Equity interest in component unit is not a financial resource and, therefore, is not reported in the funds. 146,968 – Pension assets, 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). 6,176 – 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. 120,624 – 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: <table style="margin-left: 20px; width: 80%;"> <tr> <td>General obligation bonds payable.....</td> <td style="text-align: right;">(3,607,100)</td> <td></td> </tr> <tr> <td>Lease-purchase revenue bonds payable.....</td> <td style="text-align: right;">(4,125)</td> <td></td> </tr> <tr> <td>Certificates of participation payable.....</td> <td style="text-align: right;">(247,615)</td> <td></td> </tr> <tr> <td>Limited obligation bonds payable.....</td> <td style="text-align: right;">(2,132,085)</td> <td></td> </tr> <tr> <td>GARVEE bonds payable.....</td> <td style="text-align: right;">(395,275)</td> <td></td> </tr> <tr> <td>Unamortized debt premiums (to be amortized as interest expense).....</td> <td style="text-align: right;">(558,928)</td> <td></td> </tr> <tr> <td>Notes payable.....</td> <td style="text-align: right;">(39,738)</td> <td></td> </tr> <tr> <td>Capital leases payable (excluding internal service funds).....</td> <td style="text-align: right;">(17,546)</td> <td></td> </tr> <tr> <td>Net long-term debt.....</td> <td></td> <td style="text-align: right;">(7,002,412)</td> </tr> </table> – Other liabilities not due and payable in the current period and, therefore, not reported in the funds (see Note 8 as applicable) consist of: <table style="margin-left: 20px; width: 80%;"> <tr> <td>Accrued interest payable.....</td> <td style="text-align: right;">(54,735)</td> <td></td> </tr> <tr> <td>Compensated absences (excluding internal service funds).....</td> <td style="text-align: right;">(414,723)</td> <td></td> </tr> <tr> <td>Obligations for workers' compensation.....</td> <td style="text-align: right;">(177,714)</td> <td></td> </tr> <tr> <td>Death benefit payable.....</td> <td style="text-align: right;">(490)</td> <td></td> </tr> <tr> <td>Pollution remediation payable.....</td> <td style="text-align: right;">(7,004)</td> <td></td> </tr> <tr> <td>Claims and judgments payable.....</td> <td style="text-align: right;">(741,703)</td> <td></td> </tr> <tr> <td>Net pension obligation.....</td> <td style="text-align: right;">(1,146)</td> <td></td> </tr> <tr> <td>Total other liabilities.....</td> <td></td> <td style="text-align: right;">(1,397,515)</td> </tr> </table> – 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). 235,139 	Cost of capital assets (excluding internal service funds).....	\$ 44,986,227		Less: Accumulated depreciation (excluding internal service funds).....	(641,858)		Net capital assets.....		44,344,369	General obligation bonds payable.....	(3,607,100)		Lease-purchase revenue bonds payable.....	(4,125)		Certificates of participation payable.....	(247,615)		Limited obligation bonds payable.....	(2,132,085)		GARVEE bonds payable.....	(395,275)		Unamortized debt premiums (to be amortized as interest expense).....	(558,928)		Notes payable.....	(39,738)		Capital leases payable (excluding internal service funds).....	(17,546)		Net long-term debt.....		(7,002,412)	Accrued interest payable.....	(54,735)		Compensated absences (excluding internal service funds).....	(414,723)		Obligations for workers' compensation.....	(177,714)		Death benefit payable.....	(490)		Pollution remediation payable.....	(7,004)		Claims and judgments payable.....	(741,703)		Net pension obligation.....	(1,146)		Total other liabilities.....		(1,397,515)	<p>Total net position - governmental activities (see Exhibit A-1)</p> <p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 40,879,746</p>
Cost of capital assets (excluding internal service funds).....	\$ 44,986,227																																																												
Less: Accumulated depreciation (excluding internal service funds).....	(641,858)																																																												
Net capital assets.....		44,344,369																																																											
General obligation bonds payable.....	(3,607,100)																																																												
Lease-purchase revenue bonds payable.....	(4,125)																																																												
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Unamortized debt premiums (to be amortized as interest expense).....	(558,928)																																																												
Notes payable.....	(39,738)																																																												
Capital leases payable (excluding internal service funds).....	(17,546)																																																												
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Net pension obligation.....	(1,146)																																																												
Total other liabilities.....		(1,397,515)																																																											

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, 2014

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Individual income tax.....	\$ 10,576,575	\$ —	\$ —	\$ —	\$ 10,576,575
Corporate income tax.....	1,331,934	—	—	—	1,331,934
Sales and use tax.....	5,838,079	—	—	7,786	5,845,865
Gasoline tax.....	—	1,416,771	473,750	25,549	1,916,070
Franchise tax.....	890,692	—	—	—	890,692
Highway use tax.....	—	—	596,801	—	596,801
Insurance tax.....	476,402	—	—	—	476,402
Beverage tax.....	342,955	—	—	—	342,955
Tobacco products tax.....	277,736	—	—	—	277,736
Other taxes.....	246,652	—	—	104,295	350,947
Federal funds.....	14,526,468	1,364,265	—	76,771	15,967,504
Local funds.....	144,826	21,876	963	6,062	173,727
Investment earnings.....	26,792	21,919	3,633	23,800	76,144
Interest earnings on loans.....	1,098	—	62	637	1,797
Sales and services.....	158,771	3,978	—	150,123	312,872
Rental and lease of property.....	10,083	7,832	2,435	3,441	23,791
Fees, licenses, and fines.....	713,775	607,265	98,148	178,329	1,597,517
Tobacco settlement.....	139,937	—	—	—	139,937
Contributions, gifts, and grants.....	26,441	17,508	3,672	52,051	99,672
Funds escheated.....	—	—	—	106,760	106,760
Federal recovery funds.....	151,757	80,982	—	4,130	236,869
Miscellaneous.....	294,118	9,712	996	16,455	321,281
Total revenues.....	<u>36,175,091</u>	<u>3,552,108</u>	<u>1,180,460</u>	<u>756,189</u>	<u>41,663,848</u>
Expenditures					
Current:					
General government.....	996,506	—	—	40,012	1,036,518
Primary and secondary education.....	9,749,844	—	—	—	9,749,844
Higher education.....	3,742,466	—	—	157,920	3,900,386
Health and human services.....	17,829,047	—	—	72,832	17,901,879
Economic development.....	424,786	—	—	17,578	442,364
Environment and natural resources.....	291,702	—	—	164,397	456,099
Public safety, corrections, and regulation.....	2,642,907	—	—	253,972	2,896,879
Transportation.....	—	3,408,070	744,591	2	4,152,663
Agriculture.....	163,811	—	—	16,037	179,848
Capital outlay.....	—	—	—	127,634	127,634
Debt service:					
Principal retirement.....	432,720	59,545	56,528	4,223	553,016
Interest and fees.....	293,741	20,993	16,586	131	331,451
Debt issuance costs.....	1,193	—	—	—	1,193
Total expenditures.....	<u>36,568,723</u>	<u>3,488,608</u>	<u>817,705</u>	<u>854,738</u>	<u>41,729,774</u>
Excess revenues over (under) expenditures.....	<u>(393,632)</u>	<u>63,500</u>	<u>362,755</u>	<u>(98,549)</u>	<u>(65,926)</u>
Other Financing Sources (Uses)					
Refunding bonds issued.....	506,255	—	—	—	506,255
Other debt issued.....	29	6,704	—	—	6,733
Premium on debt issued.....	98,789	—	—	—	98,789
Payment to refunded bond escrow agent.....	(603,550)	—	—	—	(603,550)
Sale of capital assets.....	6,775	7,557	188	419	14,939
Insurance recoveries.....	9,607	6,284	—	84	15,975
Transfers in (Note 10).....	906,338	53,946	—	273,187	1,233,471
Transfers out (Note 10).....	(284,938)	(267,105)	(94,048)	(159,591)	(805,682)
Total other financing sources (uses).....	<u>639,305</u>	<u>(192,614)</u>	<u>(93,860)</u>	<u>114,099</u>	<u>466,930</u>
Net change in fund balances.....	245,673	(129,114)	268,895	15,550	401,004
Fund balances — July 1, as restated (Note 23).....	1,297,863	343,986	609,227	1,590,222	3,841,298
Fund balances — June 30.....	<u>\$ 1,543,536</u>	<u>\$ 214,872</u>	<u>\$ 878,122</u>	<u>\$ 1,605,772</u>	<u>\$ 4,242,302</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, 2014

Exhibit B-2a

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ 401,004

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)	\$ 2,504,187	
Less: Depreciation expense (excluding internal service funds)	(783,687)	
Net capital outlay adjustment		1,720,500

- **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. (39,438)

- **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. 3,295

- **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:		
Notes and capital leases issued	(6,733)	
Refunding bonds issued	(506,255)	
Premiums on debt issued	(98,789)	
Principal repayments:		
Bonds, notes, and similar debt	551,613	
Capital leases (excluding internal service funds)	1,403	
Payments to escrow agent for refundings	603,550	
Net debt adjustments		544,789

- **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. (48,812)

- **Change in equity interest** of component unit resulting from capital contributions and net income of component unit are not current financial resources, and therefore, are not recognized in the funds. (16,780)

- **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	16,457	
Compensated absences (excluding internal service funds)	5,050	
Workers' compensation	(27,463)	
Death benefit	(90)	
Net pension obligation	1,426	
Pollution remediation	(727)	
Amortization of deferred amounts	98,507	
Net expense accruals		93,160

- **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). 17,321

Change in net position - governmental activities (see Exhibit A-2) \$ 2,675,039

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

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

June 30, 2014

(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).....	\$ 57,274	\$ 421,594	\$ 21,157	\$ 894
Investments (Note 3).....	—	—	4,604	—
Securities lending collateral (Note 3).....	6,664	51,292	3,032	58,203
Receivables: (Note 4)				
Accounts receivable, net.....	110,563	—	22,068	12,136
Intergovernmental receivable.....	144	159	—	407
Interest receivable.....	—	3,490	26	—
Premiums receivable.....	—	—	—	—
Contributions receivable, net.....	522,094	—	—	—
Notes receivable (Note 4).....	—	77,424	—	—
Due from other funds (Note 10).....	14,977	—	—	—
Due from component units (Note 18).....	—	—	—	—
Inventories.....	—	—	—	574
Prepaid items.....	—	—	655	—
Restricted cash and cash equivalents (Note 3).....	—	—	—	2,616
Total current assets.....	<u>711,716</u>	<u>553,959</u>	<u>51,542</u>	<u>74,830</u>
Noncurrent Assets				
Investments (Note 3).....	—	—	53,714	—
Receivables: (Note 4)				
Contributions receivable, net.....	19,188	—	—	—
Notes receivable (Note 4).....	—	902,568	—	—
Prepaid items.....	—	—	1,306	9,654
Restricted investments (Note 3).....	—	—	—	830,344
Capital assets-nondepreciable (Note 5).....	—	—	—	356,185
Capital assets-depreciable, net (Note 5).....	—	58	1,331	778,575
Total noncurrent assets.....	<u>19,188</u>	<u>902,626</u>	<u>56,351</u>	<u>1,974,758</u>
Total Assets.....	<u>730,904</u>	<u>1,456,585</u>	<u>107,893</u>	<u>2,049,588</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	19,593	137	40,498	1,378
Accrued payroll.....	—	—	415	—
Intergovernmental payable.....	51,884	—	—	136
Claims payable.....	—	—	—	—
Unemployment benefits payable.....	7,804	—	—	—
Obligations under securities lending.....	6,643	51,596	2,770	59,022
Interest payable.....	30,789	—	—	38,080
Due to fiduciary funds (Note 10).....	—	—	—	4,678
Due to other funds (Note 10).....	729	28	4,628	64
Unearned revenue.....	2,999	—	—	—
Deposits payable.....	—	—	—	1,544
Annuity and life income payable (Note 8).....	—	—	4,604	—
Notes payable (Note 8).....	—	—	—	—
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable (Note 8).....	—	—	—	19,720
Federal unemployment account advances (Note 8).....	980,986	—	—	—
Compensated absences (Note 8).....	—	40	294	6
Total current liabilities.....	<u>1,101,427</u>	<u>51,801</u>	<u>53,209</u>	<u>124,628</u>

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ 68,664	\$ 569,583	\$ 89,682
92,361	96,965	30,283
15,367	134,558	7,315
764	145,531	17,434
—	710	—
70	3,586	10
1,631	1,631	686
—	522,094	—
3	77,427	—
—	14,977	22,094
—	—	706
510	1,084	258
3,536	4,191	1,500
86	2,702	—
<u>182,992</u>	<u>1,575,039</u>	<u>169,968</u>
14,612	68,326	—
—	19,188	—
136	902,704	—
1	10,961	—
—	830,344	—
10,311	366,496	3,396
<u>42,772</u>	<u>822,736</u>	<u>98,217</u>
<u>67,832</u>	<u>3,020,755</u>	<u>101,613</u>
<u>250,824</u>	<u>4,595,794</u>	<u>271,581</u>
2,584	64,190	8,911
117	532	3,907
3	52,023	10
28,711	28,711	1,340
—	7,804	—
15,519	135,550	7,333
—	68,869	—
—	4,678	—
83	5,532	732
34,336	37,335	8,024
13	1,557	—
—	4,604	—
217	217	—
—	—	158
—	19,720	—
—	980,986	—
<u>353</u>	<u>693</u>	<u>450</u>
<u>81,936</u>	<u>1,413,001</u>	<u>30,865</u>

Continued

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

June 30, 2014

(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.....	—	—	—	61,466
Advances from other funds (Note 10).....	—	—	—	24,495
Annuity and life income payable (Note 8).....	—	—	53,714	—
Notes payable (Note 8).....	—	—	—	372,877
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable, net (Note 8).....	—	—	—	1,189,275
Compensated absences (Note 8).....	—	529	970	77
Total noncurrent liabilities.....	<u>—</u>	<u>529</u>	<u>54,684</u>	<u>1,648,190</u>
Total Liabilities.....	<u>1,101,427</u>	<u>52,330</u>	<u>107,893</u>	<u>1,772,818</u>
Net Position				
Net investment in capital assets.....	—	58	1,331	383,254
Restricted for:				
Capital outlay.....	—	—	—	—
Other purposes.....	—	—	—	—
Unrestricted.....	(370,523)	1,404,197	(1,331)	(106,484)
Total Net Position.....	<u>\$ (370,523)</u>	<u>\$ 1,404,255</u>	<u>\$ —</u>	<u>\$ 276,770</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>
37	37	—
—	61,466	—
—	24,495	—
—	53,714	—
3,775	376,652	—
—	—	165
—	1,189,275	—
5,342	6,918	5,412
<u>9,154</u>	<u>1,712,557</u>	<u>5,577</u>
<u>91,090</u>	<u>3,125,558</u>	<u>36,442</u>
49,097	433,740	101,290
86	86	—
808	808	—
109,743	1,035,602	133,849
<u>\$ 159,734</u>	<u>\$ 1,470,236</u>	<u>\$ 235,139</u>

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

For the Fiscal Year Ended June 30, 2014

(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.....	\$ 1,620,455	\$ —	\$ —	\$ —
Federal funds.....	30,653	—	—	—
Sales and services.....	—	3,633	1,839,211	382
Student tuition and fees, net.....	—	—	—	—
Interest earnings on loans.....	—	18,970	—	—
Rental and lease earnings.....	—	—	—	139
Fees, licenses, and fines.....	—	—	5,257	5,220
Toll revenues.....	—	—	—	18,980
Insurance premiums.....	—	—	—	—
Miscellaneous.....	—	—	168	4
Total operating revenues.....	<u>1,651,108</u>	<u>22,603</u>	<u>1,844,636</u>	<u>24,725</u>
Operating Expenses				
Personal services.....	—	5,640	18,127	1,460
Supplies and materials.....	—	100	1,440	8,356
Services.....	—	1,566	182,660	6,367
Cost of goods sold.....	—	—	—	382
Depreciation.....	—	19	439	16,130
Lottery prizes.....	—	—	1,135,052	—
Claims.....	—	—	—	—
Unemployment benefits.....	632,913	—	—	—
Insurance and bonding.....	—	13	10	386
Other.....	—	183	3,477	1,014
Total operating expenses.....	<u>632,913</u>	<u>7,521</u>	<u>1,341,205</u>	<u>34,095</u>
Operating income (loss).....	<u>1,018,195</u>	<u>15,082</u>	<u>503,431</u>	<u>(9,370)</u>
Nonoperating Revenues (Expenses)				
Noncapital grants.....	446	88,920	—	—
Noncapital gifts, net.....	—	—	—	—
Investment earnings.....	517	2,016	669	2,183
Interest and fees.....	(44,285)	—	—	(54,125)
Insurance recoveries.....	—	—	—	23
Grants, aid and subsidies.....	—	(20,224)	—	—
Gain (loss) on sale of equipment.....	—	—	—	—
Gain on extinguishment of debt.....	233,456	—	—	—
Federal interest subsidy on debt.....	—	—	—	11,338
Miscellaneous.....	(22,992)	(44)	35	(58)
Total nonoperating revenues (expenses).....	<u>167,142</u>	<u>70,668</u>	<u>704</u>	<u>(40,639)</u>
Income (loss) before contributions and transfers.....	1,185,337	85,750	504,135	(50,009)
Capital contributions.....	—	—	—	11,799
Transfers in (Note 10).....	10,000	14,486	—	61,201
Transfers out (Note 10).....	(1,878)	(707)	(504,135)	(14,646)
Change in net position.....	1,193,459	99,529	—	8,345
Net position — July 1, as restated (Note 23).....	(1,563,982)	1,304,726	—	268,425
Net position — June 30.....	<u>\$ (370,523)</u>	<u>\$ 1,404,255</u>	<u>\$ —</u>	<u>\$ 276,770</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
\$ —	\$ 1,620,455	\$ —
—	30,653	—
1,605	1,844,831	356,254
12	12	—
—	18,970	—
7,537	7,676	63
95,725	106,202	1,729
—	18,980	—
10,780	10,780	21,544
474	646	5,884
<u>116,133</u>	<u>3,659,205</u>	<u>385,474</u>
64,069	89,296	103,122
2,979	12,875	24,896
28,540	219,133	167,474
363	745	441
2,914	19,502	18,587
—	1,135,052	—
12,884	12,884	1,238
—	632,913	—
4,758	5,167	21,761
4,169	8,843	37,228
<u>120,676</u>	<u>2,136,410</u>	<u>374,747</u>
<u>(4,543)</u>	<u>1,522,795</u>	<u>10,727</u>
558	89,924	531
1,356	1,356	—
4,979	10,364	1,942
(93)	(98,503)	(34)
—	23	149
—	(20,224)	—
(161)	(161)	1,278
—	233,456	—
—	11,338	—
63	(22,996)	180
<u>6,702</u>	<u>204,577</u>	<u>4,046</u>
2,159	1,727,372	14,773
143	11,942	527
7,168	92,855	6,878
(1,299)	(522,665)	(4,857)
8,171	1,309,504	17,321
151,563	160,732	217,818
<u>\$ 159,734</u>	<u>\$ 1,470,236</u>	<u>\$ 235,139</u>

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Fiscal Year Ended June 30, 2014

(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.....	\$ 1,604,176	\$ 3,633	\$ 1,711,791	\$ 17,397
Receipts from federal agencies.....	31,437	—	—	—
Receipts from other funds.....	—	—	—	—
Payments to suppliers.....	—	(1,709)	(57,180)	(13,438)
Payments to employees.....	—	(5,631)	(18,227)	(1,440)
Payments for prizes, benefits, and claims.....	(667,846)	—	(1,120,520)	—
Payments to other funds.....	—	—	—	—
Other receipts.....	—	—	48	—
Other payments.....	(22,992)	(139)	—	(1,054)
Net cash flows provided (used) by operating activities.....	<u>944,775</u>	<u>(3,846)</u>	<u>515,912</u>	<u>1,465</u>
Cash Provided From (Used For)				
Noncapital Financing Activities				
Grant receipts.....	12,297	88,129	—	—
Federal recovery funds.....	—	665	—	—
Grants, aid, and subsidies.....	—	(20,224)	—	—
Advances from federal unemployment account.....	486,716	—	—	—
Payments to federal unemployment account.....	(1,427,045)	—	—	—
Interest expense and issuance cost.....	(62,496)	—	—	—
Advances from other funds.....	—	—	—	889
Transfers from other funds.....	10,000	14,486	—	—
Transfers to other funds.....	(1,878)	(707)	(526,824)	(14,646)
Gifts.....	—	—	—	—
Insurance recoveries.....	—	—	—	23
Total cash provided from (used for) noncapital financing activities.....	<u>(982,406)</u>	<u>82,349</u>	<u>(526,824)</u>	<u>(13,734)</u>
Cash Provided From (Used For)				
Capital and Related Financing Activities				
Acquisition and construction of capital assets.....	—	(15)	(872)	(21,147)
Proceeds from the sale of capital assets.....	—	—	—	—
Transfers from other funds.....	—	—	—	61,201
Capital grants.....	—	—	—	12,666
Capital contributions.....	—	—	—	—
Principal paid on capital debt.....	—	—	—	(19,150)
Interest paid on capital debt.....	—	—	—	(62,585)
Federal subsidy for interest on debt.....	—	—	—	11,338
Insurance recoveries.....	—	—	—	—
Total cash provided from (used for) capital and related financing activities.....	<u>—</u>	<u>(15)</u>	<u>(872)</u>	<u>(17,677)</u>
Cash Provided From (Used For)				
Investment Activities				
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	6,932,860
Purchase of non-State Treasurer investments.....	—	—	—	(6,905,626)
Loan issuances.....	—	(117,014)	—	—
Loan repayments — interest.....	—	18,993	—	—
Loan repayments — principal.....	—	76,614	—	—
Investment earnings.....	288	1,491	456	3,411
Total cash provided from (used for) investment activities.....	<u>288</u>	<u>(19,916)</u>	<u>456</u>	<u>30,645</u>
Net increase (decrease) in cash and cash equivalents.....	<u>(37,343)</u>	<u>58,572</u>	<u>(11,328)</u>	<u>699</u>
Cash and cash equivalents at July 1.....	<u>94,617</u>	<u>363,022</u>	<u>32,485</u>	<u>2,811</u>
Cash and cash equivalents at June 30.....	<u>\$ 57,274</u>	<u>\$ 421,594</u>	<u>\$ 21,157</u>	<u>\$ 3,510</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
\$ 124,111	\$ 3,461,108	\$ 44,000
—	31,437	—
—	—	332,719
(36,185)	(108,512)	(237,722)
(64,200)	(89,498)	(101,228)
(11,039)	(1,799,405)	(633)
—	—	(13,944)
393	441	361
<u>(2,962)</u>	<u>(27,147)</u>	<u>(100)</u>
<u>10,118</u>	<u>1,468,424</u>	<u>23,453</u>
558	100,984	531
—	665	—
—	(20,224)	—
—	486,716	—
—	(1,427,045)	—
—	(62,496)	—
—	889	—
7,168	31,654	6,878
(1,299)	(545,354)	(4,857)
1,322	1,322	—
—	23	—
<u>7,749</u>	<u>(1,432,866)</u>	<u>2,552</u>
(1,142)	(23,176)	(32,110)
53	53	1,775
—	61,201	—
—	12,666	—
37	37	485
(597)	(19,747)	(124)
(93)	(62,678)	(34)
—	11,338	—
—	—	149
<u>(1,742)</u>	<u>(20,306)</u>	<u>(29,859)</u>
16,682	6,949,542	—
(16,275)	(6,921,901)	—
—	(117,014)	—
—	18,993	—
—	76,614	—
<u>484</u>	<u>6,130</u>	<u>145</u>
891	12,364	145
17,016	27,616	(3,709)
<u>51,734</u>	<u>544,669</u>	<u>93,391</u>
<u>\$ 68,750</u>	<u>\$ 572,285</u>	<u>\$ 89,682</u>

Continued

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)**

For the Fiscal Year Ended June 30, 2014

(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 From (Used For) Operating Activities				
Operating income (loss).....	\$ 1,018,195	\$ 15,082	\$ 503,431	\$ (9,370)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation.....	—	19	439	16,130
Interest earnings on loans classified as investing activity.....	—	(18,970)	—	—
Nonoperating miscellaneous income (expense).....	(22,992)	—	48	(58)
(Increases) decreases in assets:				
Receivables.....	(45,349)	—	(4,294)	(7,328)
Due from other funds.....	(6,722)	—	—	—
Due from component units.....	—	—	—	—
Inventories.....	—	—	—	383
Prepaid items.....	—	—	(538)	386
Notes receivable.....	—	—	—	—
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities.....	26,388	18	16,910	(1,955)
Due to other funds.....	(225)	(4)	—	(12)
Due to fiduciary funds.....	—	—	—	2,816
Unemployment benefits payable.....	(23,437)	—	—	—
Compensated absences.....	—	9	(84)	20
Unearned revenue.....	(1,083)	—	—	—
Deposits payable.....	—	—	—	453
Total cash provided from (used for) operations.....	<u>\$ 944,775</u>	<u>\$ (3,846)</u>	<u>\$ 515,912</u>	<u>\$ 1,465</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.....	—	—	—	644
Gain on extinguishment of debt.....	233,456	—	—	—
Assets acquired through the assumption of a liability.....	—	—	4,498	—
Change in fair value of investments.....	258	457	192	1,038
Change in securities lending collateral.....	(1,224)	18,699	(1,798)	16,710

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ (4,543)	\$ 1,522,795	\$ 10,727
2,914	19,502	18,587
—	(18,970)	—
70	(22,932)	186
1,642	(55,329)	(5,266)
—	(6,722)	(4,358)
—	—	19
3	386	87
1,215	1,063	(397)
(22)	(22)	—
1,920	43,281	3,350
10	(231)	(351)
—	2,816	—
—	(23,437)	—
249	194	(78)
6,659	5,576	947
<u>1</u>	<u>454</u>	<u>—</u>
<u>\$ 10,118</u>	<u>\$ 1,468,424</u>	<u>\$ 23,453</u>
\$ 587	\$ 587	\$ 1,494
13	13	42
—	644	—
—	233,456	—
—	4,498	—
257	2,202	296
5,517	37,904	1,983

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2014

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).....	\$ 311,787	\$ 10,559	\$ 109,042	\$ 4,871,174
Investments (Note 3):				
U.S. government and agency securities.....	—	—	315	—
Corporate bonds.....	—	—	—	2,389
Certificates of deposit.....	—	—	48,530	525
Collective investment funds.....	238,422	—	—	—
State Treasurer investment pool.....	90,989,368	1,035,053	7,195	43,240
Unallocated insurance contracts.....	810,574	—	—	—
Synthetic guaranteed investment contracts.....	1,215,101	—	—	—
Non-State Treasurer pooled investments.....	6,131,306	—	—	—
Securities lending collateral (Note 3).....	3,709,156	96,822	919	540,710
Receivables:				
Taxes receivable.....	—	—	—	149,500
Accounts receivable.....	32,634	—	—	8,469
Interest receivable.....	213	1,215	3	21
Contributions receivable.....	144,877	—	—	—
Due from other funds (Note 10).....	57,316	—	—	37,847
Due from component units.....	11,772	—	—	—
Notes receivable.....	289,798	—	—	—
Sureties.....	—	—	873,265	100,536
Total Assets.....	<u>103,942,324</u>	<u>1,143,649</u>	<u>1,039,269</u>	<u>5,754,411</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	1,445	—	—	250
Intergovernmental payable.....	—	—	—	699,062
Benefits payable.....	7,712	—	—	—
Obligations under securities lending.....	3,724,832	97,192	934	542,237
Deposits payable.....	—	—	—	1,960
Funds held for others.....	6,535	—	—	4,510,902
Total Liabilities.....	<u>3,740,524</u>	<u>97,192</u>	<u>934</u>	<u>5,754,411</u>
Net Position				
Restricted for:				
Pension benefits.....	97,254,786	—	—	—
Postemployment benefits.....	1,446,507	—	—	—
Other employee benefits.....	1,500,507	—	—	—
Pool participants.....	—	900,903	—	—
Individuals, organizations, and other governments.....	—	145,554	1,038,335	—
Total Net Position.....	<u>\$ 100,201,800</u>	<u>\$ 1,046,457</u>	<u>\$ 1,038,335</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, 2014

Exhibit B-7

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private- Purpose Trust Funds
Additions			
Contributions:			
Employer.....	\$ 2,683,310	\$ —	\$ —
Members.....	1,553,222	—	—
Trustee deposits.....	—	—	112,443
Other contributions.....	44,519	—	—
Total contributions.....	<u>4,281,051</u>	<u>—</u>	<u>112,443</u>
Investment income:			
Investment earnings	14,386,566	51,597	3,080
Less investment expenses.....	(521,852)	(504)	(12)
Net investment income.....	<u>13,864,714</u>	<u>51,093</u>	<u>3,068</u>
Pool share transactions:			
Reinvestment of dividends.....	—	51,239	—
Net share purchases/(redemptions).....	—	(12,869)	—
Net pool share transactions.....	<u>—</u>	<u>38,370</u>	<u>—</u>
Other additions:			
Fees, licenses, and fines.....	3,225	—	—
Interest earnings on loans.....	11,780	—	—
Miscellaneous.....	2,388	—	—
Total other additions.....	<u>17,393</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>18,163,158</u>	<u>89,463</u>	<u>115,511</u>
Deductions			
Claims and benefits.....	5,539,199	—	—
Medical insurance premiums	801,815	—	—
Refund of contributions.....	167,712	—	—
Distributions paid and payable.....	—	51,239	—
Payments in accordance with trust arrangements.....	—	—	117,251
Administrative expenses.....	19,897	—	—
Other deductions.....	9,477	—	—
Total deductions.....	<u>6,538,100</u>	<u>51,239</u>	<u>117,251</u>
Change in net position.....	11,625,058	38,224	(1,740)
Net position — July 1, as restated (Note 23).....	<u>88,576,742</u>	<u>1,008,233</u>	<u>1,040,075</u>
Net position — June 30.....	<u>\$ 100,201,800</u>	<u>\$ 1,046,457</u>	<u>\$ 1,038,335</u>

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

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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. Accountability is defined as the State's substantive appointment of a majority of the organization's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the organization or there must be 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 either blended or discretely presented. The blended component unit is so intertwined with the State that it is, in substance, the same as the State and, therefore, is reported as if it was part of the State primary government. 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.

Blended Component Unit**The North Carolina Infrastructure Finance Corporation**

The North Carolina Infrastructure Finance Corporation (Corporation) was created by the General Assembly and organized as a separate not-for-profit corporation. It is managed by a three-member board appointed by the State Treasurer. The Corporation is authorized to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of state facilities and related infrastructure. The debt obligations are secured by lease-purchase agreements or installment financing contracts with the State, which constitute the imposition of a financial burden on the State. The substance of the financing agreements is that the assets and debt are those of the State (lessee). The Corporation is reported with the State's governmental funds since it provides services entirely to the State and its total debt outstanding is expected to be repaid entirely with resources of the primary government.

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 similarly affiliated 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.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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 fundraising 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	Forsyth Technical Community College	Roanoke-Chowan Community College
Asheville-Buncombe Technical Community College	Gaston College	Robeson Community College
Beaufort County Community College	Guilford Technical Community College	Rockingham Community College
Bladen Community College	Halifax Community College	Rowan-Cabarrus Community College
Blue Ridge Community College	Haywood Community College	Sampson Community College
Brunswick Community College	Isothermal Community College	Sandhills Community College
Caldwell Community College and Technical Institute	James Sprunt Community College	South Piedmont Community College
Cape Fear Community College	Johnston Community College	Southeastern Community College
Carteret Community College	Lenoir Community College	Southwestern Community College
Catawba Valley Community College	Martin Community College	Stanly Community College
Central Carolina Community College	Mayland Community College	Surry Community College
Central Piedmont Community College	McDowell Technical Community College	Tri-County Community College
Cleveland Community College	Mitchell Community College	Vance-Granville Community College
Coastal Carolina Community College	Montgomery Community College	Wake Technical Community College
College of The Albemarle	Nash Community College	Wayne Community College
Craven Community College	Pamlico Community College	Western Piedmont Community College
Davidson County Community College	Piedmont Community College	Wilkes Community College
Durham Technical Community College	Pitt Community College	Wilson Community College
Edgecombe Community College	Randolph Community College	
Fayetteville Technical Community College	Richmond 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 year 2014, these funds were distributed to the State's General Fund rather than the Foundation. 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.

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.

North Carolina Health Insurance Risk Pool, Inc.

The North Carolina Health Insurance Risk Pool (Pool), doing business as Inclusive Health, is a legally separate non-profit organization created to provide affordable health insurance coverage for North Carolinians who do not have access to an employer health

NOTES TO THE FINANCIAL STATEMENTS

plan and face higher insurance premiums because of a pre-existing medical condition. The Pool is governed by a 12-member board. The Commissioner of Insurance serves as an ex-officio, nonvoting member, one member is appointed by the Governor, two by the General Assembly, and eight by the Commissioner of Insurance. The State has obligated itself to provide significant funding to the Pool, creating a financial benefit/burden relationship. The Pool was notified by The Centers for Medicare and Medicaid Services (CMS), the federal agency which administers Medicare and Medicaid, in May 2013 that funding by CMS ceased on June 30, 2013. With the implementation of the Affordable Care Act, the State decided to sunset the Pool's operations on January 1, 2014.

North Carolina Biotechnology Center

The North Carolina Biotechnology Center (Center) is a legally separate nonprofit corporation created to further economic development in North Carolina through education, research, and commercial development in biotechnology. The Center 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 the Center serves as an ex officio member. The other members are elected by the board of directors. The State has provided significant funding to the Center since its inception; therefore, a financial benefit/burden relationship exists between the State and the Center.

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.

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
 North Carolina Global TransPark Authority
 North Carolina State Ports Authority
 The North Carolina Partnership for Children, Inc.
 North Carolina Health Insurance Risk Pool, 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, Suite 100
 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

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 North Carolina Infrastructure Finance Corporation and the State Health Plan 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 FASB pronouncements.

The financial statements are presented as of and for the fiscal year ended June 30, 2014, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2013, 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, 2013. 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 required to be accounted for in another fund.

Highway Fund

This fund accounts for most of the activities of the Department of Transportation, including the construction and maintenance 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 provides revenue to other State agencies to support initiatives such as the State Highway Patrol and driver’s education. 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 street 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. Scheduled to be fully implemented by July 1, 2015, 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. 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 unemployment benefits are financed primarily by employer paid State unemployment insurance taxes, distributions of federal unemployment insurance taxes for emergency related benefits, and federal funding for the unemployment benefits of civilian and military employees. During fiscal year 2014, the unemployment benefits were primarily financed by repayable advances from the Federal Unemployment Account. The unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund.

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 enhanced educational opportunities, support school construction, and fund college and university scholarships. 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 workers compensation and 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 on-line games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, and raffles offered, revenue is recognized at the time of sale on a daily basis. For instant games, revenue is recognized at the time a pack of tickets is settled. For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, and for raffles, prize expense is recorded at fifty percent 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 portfolio (see Note 3); and demand and time deposits with private financial institutions, excluding certificates of deposit. The Short-term Investment portfolio 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 (generally based on quoted market prices, except as discussed in Note 3) with significant exceptions noted below and in Note 1F.

Investments held by the State Treasurer in the Short-term Investment portfolio are reported at cost or amortized cost. Repurchase agreements and nonnegotiable certificates of deposit in the Short-term Investment portfolio are reported at cost. U.S. Treasuries, U.S. Agencies and domestic corporate bonds in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value (Note: Equity of each fund and component unit in the Short-term Investment portfolio is reported as cash and cash equivalents). For the primary government, proceeds from general obligation bonds and special indebtedness are generally invested in repurchase agreements, which have a maturity at time of purchase of 14 days or less, and are reported at cost. In fiduciary funds, fully benefit responsive synthetic guaranteed investment contracts and unallocated insurance contracts that are nonparticipating interest-earning investment contracts are reported at contract value. Investments in real estate held by the University of North Carolina System (excluding endowments) are reported at cost.

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

F. Securities Lending

Cash received as collateral on securities lending transactions is used to purchase investments. These investments are reported as assets in the accompanying financial statements and are generally measured at fair value with the exception of repurchase agreements, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement. Certain component units of the State deposit funds with the State Treasurer's 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. Additional disclosures about the State Treasurer's securities lending transactions are provided in Note 3.

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.

NOTES TO THE FINANCIAL STATEMENTS**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.

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 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."

NOTES TO THE FINANCIAL STATEMENTS**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 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), and 4) 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) and 2) unavailable revenues in governmental funds. The governmental funds report unavailable revenues primarily from the following sources: sales and use taxes; tobacco settlement; and fees licenses, and fines. These amounts are deferred and recognized as revenues in the period that the amounts become available.

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 or committed 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, 2014, the balance of the Savings Reserve Account was \$651.6 million, which represents 3.18% of the prior year's General Fund appropriation budget.

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: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Equity Deficit

Primary Government

At June 30, 2014, the following enterprise fund reported a net position deficit: Workers' Compensation, \$4.91 million.

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 warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank. 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 State Health Plan, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, the State Education Assistance Authority, Local Government Other Post-Employment Benefits (OPEB) Trust, and trust funds of the University of North Carolina System, 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.

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, Escheat Fund, and bond proceeds investment accounts, is maintained in the Investment Pool. This pool, a governmental 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 and the Highway Funds. Other participants include the remaining portfolios listed below, universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer.

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

External Fixed Income Investment – This portfolio holds collateralized mortgage obligations, asset-backed and commercial mortgage-backed securities 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, 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, 2014, there were sixteen 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 Investment Pool. The 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.

At year-end, the condensed financial statements for the Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

Statement of Net Position
June 30, 2014

Assets	
Cash and cash equivalents.....	\$ 200,276
Other assets.....	302,419
Investments.....	108,553,135
Total assets.....	<u>109,055,830</u>
Liabilities	
Other payables.....	25,913
Obligations under securities lending.....	5,265,818
Total liabilities.....	<u>5,291,731</u>
Net Position	
Internal:	
Primary government.....	98,636,554
Component units.....	4,226,642
External.....	900,903
Total net position.....	<u>\$ 103,764,099</u>

Statement of Operations and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

Revenues	
Investment income.....	\$ 13,270,796
Expenses	
Securities lending.....	2,093
Investment management.....	554,507
Total expenses.....	<u>556,600</u>
Net increase in net position	
resulting from operations.....	12,714,196
Distributions to participants	
Distributions paid and payable.....	(12,714,196)
Share transactions	
Reinvestment of distributions.....	12,714,131
Net share redemptions.....	<u>(2,482,362)</u>
Total increase in net position.....	10,231,769
Net position	
Beginning of year.....	93,532,330
End of year.....	<u>\$ 103,764,099</u>

NOTES TO THE FINANCIAL STATEMENTS

The external portion of the 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 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.

For most investment holdings, fair values are determined daily for the Long-term Investment, External Fixed Income Investment, Equity Investment, and OPEB Equity Investment portfolios and quarterly for the Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. In the Long-term and External Fixed Income Investment portfolios, the fair value of fixed income securities are calculated by a third party pricing vendor based on future principal and interest payments discounted using market yields. For the Alternative Investment portfolio (private equity investment partnerships and hedge funds), the Real Estate Investment portfolio (limited partnerships and other investments), the Credit Investment and Inflation Protection Investment portfolios (limited partnerships, hedge funds, and other non-publicly traded investments) the methodology for determining an estimated fair value is established by the general partner, which may utilize a third party pricing source or an independent real estate appraiser. Contracts with these partnerships, hedge funds, and other investments require an annual audit, except for certain older investments that are immaterial to the financial statements.

The general partners' estimated fair values are based on the partnerships and funds respective net asset values (NAV). The most significant input into the NAV of such an entity is the fair value of its holdings. These non-publicly traded assets are valued at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. The fair values of certain investments may require significant management judgment or estimation. Fair value is determined using the best information available for a hypothetical transaction at the measurement date, not using forced sale or fire sale pricing. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values. Additional investment valuation information is provided in Note 1.

Net investment income earned by the 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, 2014, \$2.73 million of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were exposed to custodial credit risk for nonnegotiable certificates of deposit in the amount of \$13.6 million. The nonnegotiable certificates of deposit were uninsured and were collateralized with securities not in the name of the State and held by an agent.

The State Treasurer's deposit policy for custodial credit risk is limited to complying with the collateralization rules of the North Carolina Administrative Code (Chapter 20 NCAC 7). Deposits to the Investment Pool may be made in any bank, savings and loan association or trust company in the State as approved by the State Treasurer. The North Carolina Administrative Code requires depositories to collateralize all balances that are not insured. The depositories must maintain specified security types in a third party escrow account established by the State Treasurer. The securities collateral must be governmental in origin (e.g., U.S. Treasury, U.S. agency, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. The market value of the collateral must not be less than the value of the uninsured deposits. The depositories may elect to collateralize deposits separately (dedicated method) or include deposits of the North Carolina local government units in a collateral pool with the State and certain component units (pooling method).

NOTES TO THE FINANCIAL STATEMENTS

Investments

At year-end, the Investment Pool maintained by 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	\$ 15,464,610	\$ 7,351,012	\$ 869,361	\$ 4,329,175	\$ 2,915,062
U.S. agencies	7,014,280	566,555	5,495,115	157,004	795,606
Mortgage pass-throughs	7,935,078	—	605	20,972	7,913,501
Collateralized mortgage obligations	56,096	9,406	—	—	46,690
Asset-backed securities	183,097	123,124	—	—	59,973
Repurchase agreements	2,225,000	2,225,000	—	—	—
Commercial mortgage-backed securities ..	23,436	23,436	—	—	—
Collective investment funds	200,435	200,435	—	—	—
Domestic corporate bonds	10,086,919	18,336	1,426,111	4,598,197	4,044,275
Foreign government bonds	35,711	—	11,300	24,411	—
Securities purchased with cash collateral under securities lending program:					
U.S. agencies	162,036	162,036	—	—	—
Asset-backed securities	280,952	280,952	—	—	—
Negotiable certificates of deposit	1,143,310	1,143,310	—	—	—
Repurchase agreements	1,069,867	1,069,867	—	—	—
Bank notes	232,119	232,119	—	—	—
Commercial paper	668,250	668,250	—	—	—
Domestic corporate bonds	1,372,935	1,372,935	—	—	—
	<u>48,154,131</u>	<u>\$ 15,446,773</u>	<u>\$ 7,802,492</u>	<u>\$ 9,129,759</u>	<u>\$ 15,775,107</u>
Other investments:					
Equity based trust - domestic	25,401,335				
Equity based trust - international	16,059,907				
OPEB equity based trust- domestic	77,860				
OPEB equity based trust- international	25,221				
Alternative investments:					
Hedge funds	284,326				
Private equity investment partnerships ..	3,998,764				
Stock distributions	3,090				
Real estate trust funds	7,558,972				
Credit investments	4,768,747				
Inflation protection investments	2,072,182				
Total investments	<u>\$ 108,404,535</u>				

In addition to the total investments above, nonnegotiable certificates of deposit (\$13.6 million) and time deposits held in the securities lending cash collateral pool (\$135 million) are reported as investments in the Condensed Statement of Net Position presented previously.

NOTES TO THE FINANCIAL STATEMENTS

The major investment classifications of the Investment Pool had the following attributes at year-end (dollars in thousands):

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries	\$ 13,964,308	0.00%-8.875%
U.S. agencies	6,856,581	0.00%-7.125%
Mortgage pass-throughs	7,442,532	3.00%-9.00%
Collateralized mortgage obligations	70,864	0.323%-6.432%
Commercial mortgage-backed securities	26,557	0.323%-0.404%
Asset-backed securities	198,755	0.00%-6.102%
Domestic corporate bonds	8,875,975	0.625%-10.50%
Foreign government bonds	35,000	2.45%-5.125%
Repurchase agreements	2,225,000	0.05%-0.20%
Collective investment funds	200,435	0.15%-0.155%
Securities purchased with cash collateral under securities lending program:		
U.S. agencies	162,042	0.05%-0.10%
Asset-backed securities	414,596	0.20%-0.242%
Negotiable certificates of deposit	1,143,243	0.10%-0.26%
Repurchase agreements	1,069,867	0.06%-0.10%
Bank notes	232,100	0.19%-0.24%
Commercial paper	668,436	0.10%-0.28%
Domestic corporate bonds	1,372,504	0.164%-0.317%
Equity-based trust - domestic	n/a	n/a
Equity-based trust - international	n/a	n/a

Equity-based Trust – The State Treasurer has contracted with an external party (Trustee) to create the “Treasurer of the State of North Carolina Equity Investment Fund Pooled Trust” (the Trust). The State’s pension trust funds are the only depositors in the Trust. The State Treasurer employs investment managers to manage the assets, primarily in equity and equity-based securities in accordance with the General Statutes and parameters provided by the State Treasurer. Derivative instruments are also held within the Trust consisting primarily of U.S. dollar equity futures (see Note 7). The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, engages in securities lending transactions with a third party lender, and maintains all related accounting records. The Trustee also invests residual cash in a cash sweep fund and may be temporarily employed as an investment manager. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities.

OPEB Individual Equity-based Trusts – The State Treasurer has contracted with an external party to provide an equity based investment vehicle for local governments, public authorities, or any entity eligible to participate in the State’s Local Governmental Employees’ Retirement System and the local school administrative units. Each entity has an individual trust agreement with the Trustee and is a participant in a commingled equity investment trust. The State Treasurer employs an investment manager to manage the assets, in accordance with the General Statutes and parameters provided by the State Treasurer. The Trustee maintains custody of the underlying securities in the name of the Trusts, engages in securities lending transactions, and maintains all related accounting records.

Interest Rate Risk. Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.3 years as of June 30, 2014. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

The assets of the Long-term Investment portfolio are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the retirement systems’ liabilities. At year-end, pensions and other employee benefit plans owned 95.5% of the Long-term Investment portfolio.

The Long-term Investment portfolio holds investments in Government National Mortgage Association (GNMA) mortgage pass-through pools. Critical to the pricing of these securities are the specific features of the cash flows from the interest and principal payments of the underlying mortgages. Therefore, these valuations are sensitive to the potential of principal prepayments by mortgagees in periods of changing interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which may carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates than similar securities without call options.

NOTES TO THE FINANCIAL STATEMENTS

In addition to the corporate bonds with call options mentioned in the preceding paragraph, there are corporate bonds with variable coupon rates that reset on specific dates. The cash collateral received from securities lending has also been invested in corporate bonds and asset-backed securities with floating rates. Critical to the cash flows and pricing of these securities are the changes in interest rates. The State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than the stated maturity.

The externally managed External Fixed Income Investment portfolio holds investments in asset-backed securities and collateralized mortgage obligations. The focus is on fixed and floating rate, short duration securities with an average duration of less than 2.5 years. Securities must carry an investment grade rating at the time of purchase. The short duration nature of the assets limits interest rate risk. For the asset-backed securities with floating rate, the State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than stated maturity.

Also, included within the externally managed External Fixed Income Investment portfolio are commercial mortgage-backed securities with a focus on structures with fixed rates and average life of less than six years. Securities must carry an investment grade rating at the time of purchase.

Critical to the pricing of asset-backed and mortgage-backed securities are the specific features of cash flows from the interest and principal payments of the underlying assets. Therefore, valuations are sensitive to the potential of principal prepayments by mortgagees in periods of changing interest rates.

Credit Risk. General Statute 147-69.1 specifies the cash investment options for the Short-term Investment portfolio. The statute limits credit risk by restricting the Short-term Investment portfolio's corporate obligations, asset-backed securities, and commercial paper to securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service. General Statute 147-69.2 specifies the cash investment options for the Long-term Investment portfolio. The statute limits credit risk by restricting the Long-term Investment portfolio's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service. In the Long-term Investment portfolio, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

At year-end, the Investment Pool 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	\$ —	\$ 7,014,280	\$ —	\$ —	\$ —	\$ —
Collateralized mortgage obligations	—	—	2,235	12,641	22,925	18,295
Commercial mortgage-backed securities ..	—	—	—	—	23,436	—
Asset-backed securities	—	18,194	149,110	717	15,076	—
Repurchase agreements	—	2,225,000	—	—	—	—
Collective investment funds	—	—	—	—	—	200,435
Domestic corporate bonds	120,641	602,752	4,669,557	4,294,730	399,239	—
Foreign government bonds	—	24,411	11,300	—	—	—
Securities purchased with cash collateral under securities lending program:						
U.S. agencies	—	162,036	—	—	—	—
Asset-backed securities	—	—	73,259	—	207,693	—
Negotiable certificates of deposit	—	—	1,143,310	—	—	—
Repurchase agreements	—	1,069,867	—	—	—	—
Bank notes	—	—	232,119	—	—	—
Commercial paper	—	—	668,250	—	—	—
Domestic corporate bonds	—	548,296	824,639	—	—	—
Total	<u>\$120,641</u>	<u>\$ 11,664,836</u>	<u>\$ 7,773,779</u>	<u>\$ 4,308,088</u>	<u>\$ 668,369</u>	<u>\$ 218,730</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year-end, the investments purchased with cash collateral under the securities lending program of \$5.1 billion 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. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

NOTES TO THE FINANCIAL STATEMENTS

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The State Treasurer's investment policy places no limit on the amount that may be invested in any one issuer other than the General Statute 147-69.2(b)(8) that limits the market value of an investment in the stock of a single corporation to one and one-half percent of the Retirement Systems' assets. At the fiscal year end, there were no stocks of a single corporation that exceeded this limit.

Foreign Currency Risk. At year-end, the Investment Pool's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type				Total
	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Funds	OPEB Equity Based Trust-International	
Euro	\$ 4,280,927	\$ 514,960	\$ 186,024	\$ 5,465	\$ 4,987,376
British Pound Sterling ...	2,990,470	14,377	106,963	2,867	3,114,677
Japanese Yen	2,611,559	—	63,897	4,079	2,679,535
Canadian Dollar	1,131,595	—	9,940	1,881	1,143,416
Swiss Franc	1,066,279	—	3,662	932	1,070,873
Hong Kong Dollar	989,685	—	46,026	1,416	1,037,127
Australian Dollar	641,017	—	26,680	1,414	669,111
South Korean Won	441,951	—	—	223	442,174
Swedish Krona	414,790	—	3,100	673	418,563
New Taiwan Dollar	243,774	—	—	853	244,627
Singapore Dollar	225,085	—	10,749	442	236,276
Danish Krone	222,380	—	—	285	222,665
Indian Rupee	184,776	—	—	—	184,776
Other Currencies	615,619	—	3,935	4,086	623,640
Total	<u>\$ 16,059,907</u>	<u>\$ 529,337</u>	<u>\$ 460,976</u>	<u>\$ 24,616</u>	<u>\$ 17,074,836</u>

The State Treasurer has no formal policy regarding the maximum amount of investments in international securities. At year-end, the retirement systems had approximately 18% invested in international securities. The Investment Pool recognized an aggregate foreign currency transaction loss of \$68.07 million for the fiscal year ended June 30, 2014. Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated.

Note: The OPEB Equity Based Trust-International total in this table does not agree to the carrying amount disclosed in the investments and maturities table because the investments and maturities table includes American Depositary Receipts and cash collateral held for the daily settlement of derivatives. In addition, the OPEB Equity Based Trust-International equity market values in the foreign currency risk table are based on trade date while the carrying amount for this portfolio is reported on settle date in the investments and maturities table.

Securities Lending

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its Investment Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's custodian manages the securities lending program for the internally managed fixed income portfolios. During the year the custodian lent U.S. government and agency securities, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102% of the market value of the securities lent, and additional collateral is required if its value falls to less than 100% of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the custodian. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities lent. Under the current guidelines cash can be invested in securities ranging from overnight to 397 days and the custodian is not permitted to make investments where the weighted average maturity of all investments exceeds 60 days. At year-end, the weighted average maturity of investments was approximately 40 days.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the State Treasurer had no credit risk exposure to borrowers because the amounts the Treasurer owed the borrowers exceeded the amounts the borrowers owed the State. The custodian is contractually obligated to indemnify the Treasurer for certain conditions, the two most important are default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans.

During the market crisis of late 2008, there was a default in a Lehman Brothers floating rate note in which securities lending collateral had been invested. Since that time, several other investments with potential losses were identified. The State Treasurer directed that all securities lending revenues would be deposited into a separate account. These funds are invested into a collective investment trust fund, and are included on the Statement of Net Position. The purpose of the separate account is to provide a reserve account to offset expected losses. At year-end, the State Treasurer had an unrealized loss in the Securities Lending Collateral pool of \$201 million, and had accrued \$181.7 million in the separate account.

Interest Rate Risk and Credit Risk. Under the prior securities lending guidelines, asset-backed securities must bear the highest rating of at least one nationally recognized rating service. The expected maturity shall not exceed five years and securities having a final maturity greater than two years will be in floating rate instruments with interest rate resets occurring at no greater than 90-day intervals to minimize the effect of interest rate fluctuations on their valuations. Corporate bonds and notes, including bank holding company obligations, rated AA must have a final maturity no greater than three years. Securities rated A must have a final maturity no greater than two years. No more than five percent of the cash collateral may be invested in a single issue.

Securities purchased under the current securities lending program will not have a final maturity greater than 397 days. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. At the time of purchase, asset-backed securities are required to have a AAA rating by at least two of the rating agencies. All other eligible securities must have a minimum short-term rating of A-1/P-1 or a long-term rating of A/A2. No more than 5% of the collateral account's total assets may be invested in a corporate or bank obligation, or asset-backed securities of a single issuer or sponsor.

Bond Proceeds Investment Accounts

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

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity (Days)</u>
Debt investments:		
Repurchase agreements	\$ 38,414	7
Total investments	<u>\$ 38,414</u>	

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1, which limits credit risk as described above, and can only be invested in short-term maturities with the average maturity ranging between overnight to six months based on the liquidity needs of the investment accounts.

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 a commingled equity investment fund. 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.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>
Other investments:	
Equity based trust - domestic	\$ 109,638
Equity based trust - international	35,965
Total investments	<u>\$ 145,603</u>

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):

<u>Currency</u>	<u>Carrying Value by Investment Type</u>
	<u>Equity Based Trust- International</u>
Euro	\$ 7,793
Japanese Yen	5,817
British Pound Sterling	4,089
Canadian Dollar	2,683
Australian Dollar	2,019
Hong Kong Dollar	2,016
Swiss Franc	1,328
South African Rand	1,216
Taiwan Dollar	1,216
Norwegian Krone	1,179
Swedish Krona	960
Brazilian Real	891
Thai Baht	719
Malaysian Ringgit	644
Singapore Dollar	630
Turkish Lira	496
Danish Krone	407
Other Currencies	998
Total	<u>\$ 35,101</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because the investment 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 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. The investments are reported at fair value as determined by the investment manager. Factors considered by the investment managers in determining fair value include cost, the type of investment, subsequent purchases of the same or similar investments, the current financial position and operating results of the underlying investments and such other factors as may be deemed relevant. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>
Other investments:	
Private equity investment partnerships	\$ 40,285
Total investments	<u>\$ 40,285</u>

NOTES TO THE FINANCIAL STATEMENTS**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 deposits held outside the State Treasurer were maintained by the various clerks of superior court. The clerks of superior court do 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.....	\$ 5,262
Total.....	<u>\$ 5,262</u>

Component Units

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

Uninsured and uncollateralized.....	\$ 198,201
Uninsured and collateral held by pledging bank's trust department or agent but not in the State's name....	1,566
Total.....	<u>\$ 199,767</u>

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

At year-end, 88% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan.

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

The General Statutes place no specific investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) or the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan). However, in the absence of specific legislation, 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, 2013, 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 \$6.13 billion. The remainder of the investments consists of those in the Stable Value Fund supported by five wrap contracts.

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.....	\$ 254,684	\$ 8,944	\$ 108,747	\$ 126,951	\$ 10,042
U.S. Treasury STRIPS.....	40,816	—	6,896	28,447	5,473
U.S. agencies.....	21,430	1,598	9,892	3,863	6,077
Mortgage pass-throughs.....	64,587	5,179	9,942	15,361	34,105
Collateralized mortgage obligations.....	93,408	8,725	1,902	17,267	65,514
State and local government.....	6,708	—	6,097	—	611
Asset-backed securities.....	47,218	657	41,982	1,619	2,960
Collective investment funds.....	1,432,314	90,595	735,984	605,735	—
Money market mutual funds.....	81,331	81,331	—	—	—
Pooled debt funds.....	266,179	—	—	266,179	—
Domestic corporate bonds.....	137,173	14,550	93,757	21,623	7,243
Foreign corporate bonds.....	66,017	5,428	54,218	4,897	1,474
Foreign government bonds.....	54,599	14,234	36,429	272	3,664
	<u>2,566,464</u>	<u>\$ 231,241</u>	<u>\$ 1,105,846</u>	<u>\$ 1,092,214</u>	<u>\$ 137,163</u>
Other investments:					
Equity mutual funds.....	1,412,212				
Unallocated insurance contracts.....	810,574				
Domestic stocks.....	2,916,751				
Foreign stocks.....	709,055				
Other.....	1,631				
Total investments.....	<u>\$ 8,416,687</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 \$20.1 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. Commercial mortgage-backed securities, which are included in asset-backed securities, are asset-backed securities whose cash flows are backed by the principal and interest payments of commercial or multifamily property mortgage loans. The sensitivity to changes in interest is considered lower as these types of securities are usually collateralized by fixed-rate mortgages that often contain lockout provisions for prepayment or are subject to prepayment penalties. 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

NOTES TO THE FINANCIAL STATEMENTS

changes in interest rates. Investments consist of units in various commingled funds, each with an investment objective relative to maturity and liquidity with interest rate risk dependent upon the weighted average maturity of each of the funds.

Credit Risk. The 401(k) and 457 Plans have a formal investment policy on credit risk. The 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 rating of BBB- or 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 SA-NC 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 SA-NC permits investments in issues rated below investment grade, but those securities should not exceed 20% of the fixed income assets. At December 31, 2013, 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.....	\$ —	\$ 17,730	\$ —	\$ —	\$ —	\$ —
Mortgage pass-throughs.....	—	63,117	—	—	—	—
Collateralized mortgage obligations..	8,756	55,759	3,199	4,251	4,050	4,008
State and local government.....	—	3,787	2,921	—	—	—
Asset-backed securities.....	38,819	3,316	1,971	1,510	133	1,469
Collective investment funds.....	—	—	—	—	—	1,432,314
Money market mutual funds.....	—	—	—	—	—	81,331
Pooled debt funds.....	—	—	—	—	—	266,179
Domestic corporate bonds.....	272	7,025	41,691	88,080	105	—
Foreign corporate bonds.....	3,551	19,047	31,351	11,979	89	—
Foreign government bonds.....	21,038	5,130	12,470	4,529	—	11,432
	<u>\$72,436</u>	<u>\$ 174,911</u>	<u>\$93,603</u>	<u>\$ 110,349</u>	<u>\$ 4,377</u>	<u>\$ 1,796,733</u>

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk. At December 31, 2013, 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.....	\$ 254,684
U.S. Treasury STRIPS.....	40,816
U.S. agencies.....	21,430
Mortgage pass-throughs.....	64,587
Collateralized mortgage obligations....	93,408
State and local government.....	6,708
Asset-backed securities.....	47,218
Domestic corporate bonds.....	137,173
Foreign corporate bonds.....	66,017
Foreign government bonds.....	54,599
Domestic stocks.....	2,916,751
Foreign stocks.....	709,055
Total.....	<u>\$ 4,412,446</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, 2013, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Amount	
	Foreign stocks	
Euro.....	\$	203,462
Japanese Yen.....		157,743
British Pound Sterling.....		120,545
Swiss Franc.....		38,842
Hong Kong Dollar.....		30,173
Swedish Krona.....		25,265
South Korean Won.....		22,235
Canadian Dollar.....		17,130
Australian Dollar.....		16,237
Danish Krone.....		14,112
Singapore Dollar.....		10,556
South African Rand.....		10,160
New Taiwan Dollar.....		9,556
Turkish Lira.....		9,069
Indian Rupee.....		4,885
Other Currencies.....		19,085
Total.....	\$	<u>709,055</u>

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.....	\$ 25,465	\$ —	\$ 25,104	\$ 361	\$ —
U.S. Treasury STRIPS.....	139	63	75	1	—
U.S. agencies.....	71,970	10,730	59,212	2,028	—
Asset-backed securities.....	4,594	4,594	—	—	—
Repurchase agreements.....	293,614	293,614	—	—	—
Annuity contracts.....	58,317	4,604	18,416	18,416	16,881
Debt mutual funds.....	303	—	76	197	30
Money market mutual funds.....	136,232	136,232	—	—	—
Pooled debt funds.....	471,776	471,776	—	—	—
	<u>1,062,410</u>	<u>\$ 921,613</u>	<u>\$102,883</u>	<u>\$ 21,003</u>	<u>\$ 16,911</u>
Other investments:					
International mutual funds.....	243				
Equity mutual funds.....	323				
Real estate investment trust.....	24				
Domestic stocks.....	78,870				
Total investment securities.....	<u>\$ 1,141,870</u>				

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants for certain issues, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank with a short-term rating not less than P-1 from Moody's and not less than A-1 from S&P and Fitch; or 2) any commercial bank, trust company, or national banking association rated A or better by Moody's, S&P and Fitch, the deposits of which are insured by the Federal Deposit Insurance Corporation. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate 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.....	\$ 71,970	\$ —	\$ —	\$ —	\$ —	\$ —
Asset-backed securities.....	4,594	—	—	—	—	—
Annuity contracts.....	—	58,317	—	—	—	—
Debt mutual funds.....	143	24	33	48	51	4
Money market mutual funds.....	136,194	—	—	—	—	38
Pooled debt funds.....	—	—	—	—	—	471,776
Total.....	<u>\$ 212,901</u>	<u>\$ 58,341</u>	<u>\$ 33</u>	<u>\$ 48</u>	<u>\$ 51</u>	<u>\$ 471,818</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.

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 an 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 University.

Investments of the University of North Carolina at Chapel Hill for which a readily determinable fair value does not exist include investments in certain commingled funds and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments or third party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The majority of private equity limited partnerships and real assets limited partnerships are subject to fair value estimation, which includes discounted cash flow and transaction comparison. The estimated fair value of these investments is \$1.42 billion.

NOTES TO THE FINANCIAL STATEMENTS

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.....	\$ 173,117	\$ 44,030	\$ 121,162	\$ 7,925	\$ —
U.S. agencies.....	136,619	13,969	24,548	4,175	93,927
Mortgage pass-throughs.....	20,650	8,293	6,077	214	6,066
Collateralized mortgage obligations.....	60,163	39,448	83	677	19,955
State and local government.....	2,966	366	—	—	2,600
Asset-backed securities.....	34,120	30,686	3,434	—	—
Collective investment funds.....	40,898	40,898	—	—	—
Commercial paper.....	610	610	—	—	—
Annuity contracts.....	54	54	—	—	—
Debt mutual funds.....	320,446	2,967	35,760	281,313	406
Money market mutual funds.....	352,891	348,355	4,536	—	—
Pooled debt funds.....	873	227	360	286	—
Domestic corporate bonds.....	77,832	15,777	41,036	13,857	7,162
Foreign corporate bonds.....	25,550	3,991	9,423	10,253	1,883
Foreign government bonds.....	452	33	202	217	—
	<u>1,247,241</u>	<u>\$ 549,704</u>	<u>\$ 246,621</u>	<u>\$ 318,917</u>	<u>\$ 131,999</u>
Other investments:					
Balanced mutual funds.....	56,218				
International mutual funds.....	156,803				
Equity mutual funds.....	165,044				
Investments in real estate.....	34,728				
Real estate investment trust.....	72,435				
Hedge funds.....	2,307,034				
Private equity limited partnerships.....	1,008,565				
Real assets limited partnerships.....	526,613				
Other limited partnerships.....	251,752				
Pooled investments.....	4,768				
Unallocated insurance contracts.....	544				
Domestic stocks.....	227,284				
Foreign stocks.....	10,851				
Other.....	17,267				
Total investments.....	<u>\$ 6,087,147</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.....	\$ 590	\$ 133,564	\$ —	\$ —	\$ —	\$ 433
Mortgage pass-throughs.....	290	—	—	1,682	8,424	10,254
Collateralized mortgage obligations..	476	934	645	—	—	58,108
State and local government.....	911	286	1,053	350	—	—
Asset-backed securities.....	6,015	1,745	4,392	6,289	14,415	1,264
Collective investment funds.....	—	5,709	5,429	—	728	29,032
Commercial paper.....	—	—	—	—	—	610
Debt mutual funds.....	77,869	120,732	14,430	84,917	13,495	9,003
Money market mutual funds.....	336,484	499	1,853	611	—	11,343
Pooled debt funds.....	—	—	—	—	—	873
Domestic corporate bonds.....	8,257	21,949	31,996	6,428	6,730	585
Foreign corporate bonds.....	1,529	487	1,607	8,119	13,173	69
Foreign government bonds.....	—	—	—	202	217	33
Total.....	<u>\$ 432,421</u>	<u>\$ 285,905</u>	<u>\$ 61,405</u>	<u>\$ 108,598</u>	<u>\$ 57,182</u>	<u>\$ 121,607</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 State's name
U.S. Treasuries.....	\$ 24,196	\$ 3,817
U.S. agencies.....	2,383	—
Mortgage pass-throughs.....	10,254	—
Collateralized mortgage obligations..	144	—
State and local government.....	366	2,600
Asset-backed securities.....	—	3,434
Domestic corporate bonds.....	18,629	9,318
Foreign corporate bonds.....	565	493
Domestic stocks.....	25,221	75
Foreign stocks.....	1,123	18
Total	<u>\$ 82,881</u>	<u>\$ 19,755</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
Euro.....	\$ 30,847	\$ 97,028	\$ 21,915
Canadian Dollar.....	—	—	9,850
British Pound Sterling....	—	11,464	8,608
Australian Dollar.....	—	5,790	—
Total.....	<u>\$ 30,847</u>	<u>\$ 114,282</u>	<u>\$ 40,373</u>

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

Receivables at June 30, 2014, 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)..	\$ 3,861,069	\$ 283,443	\$ 44,693	\$ 25,527	\$ 18,130	\$ 4,232,862
Allowance for doubtful accounts.....	(859,261)	(63,798)	—	(13)	—	(923,072)
Receivables, net.....	<u>\$ 3,001,808</u>	<u>\$ 219,645</u>	<u>\$ 44,693</u>	<u>\$ 25,514</u>	<u>\$ 18,130</u>	<u>\$ 3,309,790</u>
Notes receivable, gross.....	\$ 85,863	\$ 780	\$ 58	\$ 41,036	\$ —	\$ 127,737
Allowance for doubtful accounts.....	(46,365)	—	—	—	—	(46,365)
Notes receivable, net.....	<u>\$ 39,498</u>	<u>\$ 780</u>	<u>\$ 58</u>	<u>\$ 41,036</u>	<u>\$ —</u>	<u>\$ 81,372</u>

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are \$22.17 million of accounts, intergovernmental, 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)..	\$ 737,407	\$ 3,649	\$ 22,094	\$ 12,543	\$ 2,474	\$ 778,167
Allowance for doubtful accounts.....	(85,418)	—	—	—	(9)	(85,427)
Receivables, net.....	<u>\$ 651,989</u>	<u>\$ 3,649</u>	<u>\$ 22,094</u>	<u>\$ 12,543</u>	<u>\$ 2,465</u>	<u>\$ 692,740</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, 2014 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, nondepreciable				
Land and permanent easements	\$ 15,662,140	\$ 554,950	\$ (914)	\$ 16,216,176
Art, literature, and other artifacts	99,179	5,209	(92)	104,296
Construction in progress	1,923,523	1,696,459	(1,547,406)	2,072,576
Computer software in development	453,560	130,808	(239,236)	345,132
Total capital assets-nondepreciable	<u>18,138,402</u>	<u>2,387,426</u>	<u>(1,787,648)</u>	<u>18,738,180</u>
Capital Assets, depreciable				
Buildings	3,773,250	75,803	(1,624)	3,847,429
Machinery and equipment	1,673,955	130,116	(97,521)	1,706,550
General infrastructure	242,408	12,258	(520)	254,146
State highway system	29,805,469	1,460,121	(75,603)	31,189,987
Computer software	36,181	239,235	(86)	275,330
Total capital assets-depreciable	<u>35,531,263</u>	<u>1,917,533</u>	<u>(175,354)</u>	<u>37,273,442</u>
Less accumulated depreciation for				
Buildings	(1,002,684)	(70,751)	781	(1,072,654)
Machinery and equipment	(1,087,913)	(94,479)	84,169	(1,098,223)
General infrastructure	(81,148)	(5,495)	213	(86,430)
State highway system	(8,742,492)	(623,800)	72,579	(9,293,713)
Computer software	(6,871)	(7,749)	—	(14,620)
Total accumulated depreciation	<u>(10,921,108)</u>	<u>(802,274)</u>	<u>157,742</u>	<u>(11,565,640)</u>
Total capital assets-depreciable, net	<u>24,610,155</u>	<u>1,115,259</u>	<u>(17,612)</u>	<u>25,707,802</u>
Governmental activities capital assets, net	<u>\$ 42,748,557</u>	<u>\$ 3,502,685</u>	<u>\$ (1,805,260)</u>	<u>\$ 44,445,982</u>

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

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, nondepreciable				
Land and permanent easements	\$ 154,884	\$ 4,609	\$ —	\$ 159,493
Construction in progress	167,671	41,469	(2,137)	207,003
Total capital assets-nondepreciable	<u>322,555</u>	<u>46,078</u>	<u>(2,137)</u>	<u>366,496</u>
Capital Assets, depreciable				
Buildings	56,093	2,463	(281)	58,275
Machinery and equipment	17,437	1,950	(861)	18,526
General infrastructure	16,053	—	(18)	16,035
NC toll road system	806,486	—	—	806,486
Computer software	180	—	—	180
Total capital assets-depreciable	<u>896,249</u>	<u>4,413</u>	<u>(1,160)</u>	<u>899,502</u>
Less accumulated depreciation for				
Buildings	(24,272)	(1,386)	148	(25,510)
Machinery and equipment	(10,774)	(1,642)	628	(11,788)
General infrastructure	(11,077)	(331)	18	(11,390)
NC toll road system	(11,781)	(16,129)	—	(27,910)
Computer software	(154)	(14)	—	(168)
Total accumulated depreciation	<u>(58,058)</u>	<u>(19,502)</u>	<u>794</u>	<u>(76,766)</u>
Total capital assets-depreciable, net	<u>838,191</u>	<u>(15,089)</u>	<u>(366)</u>	<u>822,736</u>
Business-type activities				
capital assets, net	<u>\$ 1,160,746</u>	<u>\$ 30,989</u>	<u>\$ (2,503)</u>	<u>\$ 1,189,232</u>

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

General government	\$ 28,260
Primary and secondary education	1,816
Higher education	110
Health and human services	22,091
Economic development	1,090
Environment and natural resources	14,771
Public safety, corrections, and regulation	56,138
Transportation	671,269
Agriculture	6,729
Total depreciation expense	<u>\$ 802,274</u>

Business-type activities

N.C. State Lottery	\$ 439
EPA Revolving Loan	19
N.C. Turnpike Authority	16,130
Regulatory programs	1,497
North Carolina State Fair	547
Other business-type activities	870
Total depreciation expense	<u>\$ 19,502</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, 2014, was as follows (dollars in thousands):

University of North Carolina System	Balance			Balance
	July 1, 2013 (as restated)	Increases	Decreases	
Capital Assets, nondepreciable				
Land and permanent easements	\$ 388,851	\$ 17,154	\$ (9,674)	\$ 396,331
Art, literature, and other artifacts	151,305	3,137	(308)	154,134
Construction in progress	979,379	449,790	(800,948)	628,221
Computer software in development	46,352	30,113	(11,060)	65,405
Other intangible assets	1,000	—	—	1,000
Total capital assets-nondepreciable	<u>1,566,887</u>	<u>500,194</u>	<u>(821,990)</u>	<u>1,245,091</u>
Capital Assets, depreciable				
Buildings	11,243,080	867,100	(21,617)	12,088,563
Machinery and equipment	2,318,297	168,264	(95,749)	2,390,812
Art, literature, and other artifacts	1,233	30	—	1,263
General infrastructure	1,784,801	112,619	(2,645)	1,894,775
Computer software	162,474	79,209	(36,407)	205,276
Other intangible assets	12,725	1,282	(124)	13,883
Total capital assets-depreciable	<u>15,522,610</u>	<u>1,228,504</u>	<u>(156,542)</u>	<u>16,594,572</u>
Less accumulated depreciation for				
Buildings	(3,112,013)	(289,578)	11,091	(3,390,500)
Machinery and equipment	(1,450,485)	(149,334)	77,997	(1,521,822)
Art, literature, and other artifacts	(475)	(73)	—	(548)
General infrastructure	(564,144)	(52,144)	637	(615,651)
Computer software	(53,146)	(13,986)	1,318	(65,814)
Other intangible assets	(2,328)	(170)	—	(2,498)
Total accumulated depreciation	<u>(5,182,591)</u>	<u>(505,285)</u>	<u>91,043</u>	<u>(5,596,833)</u>
Total capital assets-depreciable, net	<u>10,340,019</u>	<u>723,219</u>	<u>(65,499)</u>	<u>10,997,739</u>
University of North Carolina System capital assets, net	<u>\$ 11,906,906</u>	<u>\$ 1,223,413</u>	<u>\$ (887,489)</u>	<u>\$ 12,242,830</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2014, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$42.488 million and net depreciable capital assets of \$107.278 million.

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges**

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, nondepreciable				
Land and permanent easements	\$ 164,221	\$ 7,204	\$ (377)	\$ 171,048
Art, literature, and other artifacts	360	176	—	536
Construction in progress	127,633	136,965	(101,773)	162,825
Total capital assets-nondepreciable	<u>292,214</u>	<u>144,345</u>	<u>(102,150)</u>	<u>334,409</u>
Capital Assets, depreciable				
Buildings	2,527,698	121,230	(3,427)	2,645,501
Machinery and equipment	363,772	42,673	(14,315)	392,130
Art, literature, and other artifacts	535	39	—	574
General infrastructure	160,372	9,247	(377)	169,242
Computer software	1,207	—	—	1,207
Total capital assets-depreciable	<u>3,053,584</u>	<u>173,189</u>	<u>(18,119)</u>	<u>3,208,654</u>
Less accumulated depreciation for				
Buildings	(654,247)	(51,811)	1,689	(704,369)
Machinery and equipment	(142,313)	(21,742)	10,567	(153,488)
Art, literature, and other artifacts	(114)	(14)	—	(128)
General infrastructure	(41,165)	(4,204)	386	(44,983)
Computer software	(614)	(120)	—	(734)
Total accumulated depreciation	<u>(838,453)</u>	<u>(77,891)</u>	<u>12,642</u>	<u>(903,702)</u>
Total capital assets-depreciable, net	<u>2,215,131</u>	<u>95,298</u>	<u>(5,477)</u>	<u>2,304,952</u>
Community Colleges capital assets, net	<u>\$ 2,507,345</u>	<u>\$ 239,643</u>	<u>\$ (107,627)</u>	<u>\$ 2,639,361</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2014, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$6.532 million and net depreciable capital assets of \$7.232 million.

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

At the University of North Carolina at Chapel Hill, commercial paper was issued from the University of North Carolina General Revenue Bonds, Series 2012A and 2012B, to provide interim financing for the construction of capital projects. The amount of outstanding commercial paper as of June 30, 2014 was \$18 million.

North Carolina State University has available commercial paper program financing for short-term credit up to \$100 million to finance capital construction projects. The University's available funds are pledged to the commercial paper program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2014, the amount of outstanding commercial paper was \$10 million.

On February 19, 2013, Winston-Salem State University entered into a loan agreement with First Tennessee Bank for \$12.8 million that was repaid with bond proceeds received in July 2013. The proceeds were used to pay for the continued construction on the new Student Activities Center and Student Success Center. As of June 30, 2014, there was no outstanding balance.

UNC Health Care System has a revolving line of credit used to support short-term normal operating expenses and to enhance liquidity. The amount outstanding on the revolving line of credit as of June 30, 2014 was \$12.331 million.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2014, is as follows (dollars in thousands):

	<u>Balance</u> <u>July 1, 2013</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>University of North Carolina System</u>				
Commercial paper program.....	\$ 18,000	\$ 10,000	\$ —	\$ 28,000
Anticipation notes.....	12,800	—	(12,800)	—
Line of credit.....	14,855	63,907	(66,431)	12,331
Total short-term debt.....	<u>\$ 45,655</u>	<u>\$ 73,907</u>	<u>\$ (79,231)</u>	<u>\$ 40,331</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 7: DERIVATIVE INSTRUMENTS****A. Summary Information**

A summary of derivative instrument activity during the fiscal year and balances at year-end, classified by type, are as follows (dollars in thousands):

Type	Changes in Fair Value		Fair Value at June 30, 2014		
	Classification	Increase (Decrease)	Classification	Debit (Credit)	Notional
Primary Government					
Fiduciary Funds					
Investment derivatives:					
U.S. dollar equity futures	Investment earnings	\$ 9,731	State Treasurer Investment Pool	\$ 9,731	\$720,700
Commodity futures	Investment earnings	11,357	State Treasurer Investment Pool	11,357	(a)
Total		<u>\$ 21,088</u>		<u>\$ 21,088</u>	
Component Units					
University of North Carolina System					
Cash flow hedges:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Deferred outflow of resources	\$ (2,763)	Hedging derivatives liability	\$ (83,189)	\$250,000
N.C. State University	Deferred outflow of resources	243	Hedging derivatives liability	(11,973)	\$ 74,655
UNC at Pembroke	Deferred outflow of resources	449	Hedging derivatives liability	(2,102)	\$ 9,495
Fayetteville State University	Deferred outflow of resources	(120)	Hedging derivatives liability	(2,219)	\$ 11,183
N.C. Central University	Deferred outflow of resources	(33)	Hedging derivatives liability	(1,073)	\$ 7,306
UNC Hospitals	Deferred outflow of resources	907	Hedging derivatives liability	(17,573)	\$124,495
Total		<u>\$ (1,317)</u>		<u>\$(118,129)</u>	
Investment derivatives:					
UNC at Chapel Hill:					
Pay-fixed interest rate swap	Operating grants and contributions	\$ 375	Accounts payable	\$ (3,828)	\$ 17,765
U.S. dollar equity futures	Operating grants and contributions	18,119	Investments	58,905	\$ 58,474
Foreign equity futures	Operating grants and contributions	2,265	Investments	21,616	(b)
Total		<u>\$ 20,759</u>		<u>\$ 76,693</u>	

(a) 1.13 million U.S. barrels of crude oil; 858,000 barrels of Brent crude oil; 1.81 million troy ounces of silver; 35.16 million pounds of live cattle; 90,300 troy ounces of gold; 13.4 million U.S. gallons of gasoline; 4.75 million pounds of cattle feeder; 5.41 million bushels of soybeans; and 13.58 million bushels of corn.

(b) 2 billion yen.

For component units, the fair values of interest rate swaps were measured using market prices except as follows:

The fair values of interest rate swaps at University of North Carolina (UNC) at Chapel Hill, UNC at Pembroke, and Fayetteville State University were estimated using the zero coupon method. This method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The fair value of the interest rate swap at N.C. Central University was determined by the counterparty using mathematical approximations of market values based on a function of long-term swap rates. The swap was discounted due to the expectation for lower London Interbank Offered Rate (LIBOR) rates in the future.

NOTES TO THE FINANCIAL STATEMENTS**B. Hedging Derivative Instruments****Component Units****University of North Carolina System**

The following table displays the objectives and terms of the University of North Carolina System's hedging derivative instruments outstanding at June 30, 2014 (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 General Revenue 2001B&C and 2012A&B Series bonds	\$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 General Revenue 2001B&C and 2012A&B Series bonds	\$150,000	12/1/11	12/1/41	Pay 4.375%; receive 67% of one-month LIBOR
N.C. State University					
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2003B Series bonds	\$ 24,655	6/20/03	10/1/27	Pay 3.54%; receive 75% of one-month LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2008A Series bonds	\$ 50,000	9/1/08	10/1/26	Pay 3.862%; receive SIFMA Swap index
UNC at Pembroke					
Pay-fixed interest rate swap	Hedge changes in cash flows on Student Housing Revenue 2001A Series bonds	\$ 9,495	11/1/01	7/1/31	Pay 3.955%; receive 67% of one-month LIBOR
Fayetteville State University					
Pay-fixed interest rate swap	Hedge changes in cash flows on Housing Facilities Revenue 2001 Series bonds	\$ 11,183	10/1/01	11/1/33	Pay 3.45%; receive 67% of one-month LIBOR
N.C. Central University					
Pay-fixed interest rate swap	Hedge changes in cash flows on Housing Facilities Revenue 2003A Series bonds	\$ 7,306	4/1/04	10/1/24	Pay 3.515%; receive 70% of one-month LIBOR
UNC Hospitals					
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2003A&B Series bonds	\$ 92,295	2/13/03	2/1/29	Pay 3.48%; receive 67% of one-month LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2009A Series bonds	\$ 32,200	2/12/09	2/1/24	Pay 3.606%; receive 67% of one-month LIBOR

The University of North Carolina System's 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, 2014. The fair values are calculated as of June 30, 2014. 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.

NOTES TO THE FINANCIAL STATEMENTS

Rollover risk. The University is exposed to rollover risk on the \$100 million swap based upon the maturity date of the underlying debt and due to the form of the debt as variable rate demand bonds.

N.C. State University

Interest rate risk. N.C. State University (University) is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2014. 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 fair values are the market values as of June 30, 2014. Both of the swaps outstanding have termination dates greater than 12 years. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than the Securities Industry and Financial Markets Association Swap Index (SIFMA). Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. The current outstanding swaps and the related bonds reset rates weekly and pay monthly. As of June 30, 2014, the SIFMA rate was 0.06%, whereas 75% of LIBOR was 0.12%.

Termination risk. The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Rollover risk. By definition, the University is exposed to rollover risk because the swap related to the 2008A bonds terminates October 1, 2026, two years before the related bonds mature on October 1, 2028. It is not the intent of the University at this time to re-hedge the bonds.

Future swaps. The University has also entered into a future dated interest rate swap agreement for \$22.38 million to be effective March 1, 2017, on the General Revenue Series 2008A bonds.

UNC at Pembroke

Interest rate risk. UNC at Pembroke (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. As LIBOR increases, the University's net payment on the swap increases.

Basis risk. The University is exposed to basis risk on the swap because the variable-rate payments received is based on a different rate than the University pays on its 2001A Series variable rate debt. As of June 30, 2014, the interest rate on the University's swap is benchmarked to 67% of one-month LIBOR, which is 0.1%. The variable-interest rate paid is not benchmarked to a reference rate but is reset weekly by the Remarketing Agent based upon market conditions and the University's credit rating. At June 30, 2014, the interest rate upon the demand bond was 0.05%.

Termination risk. The University or its counterparty may terminate the swap if the other party fails to perform under the terms of the contract.

Fayetteville State University

Interest rate risk. Fayetteville State University (University) is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As LIBOR increases, the University's net payment on the swap decreases.

Basis risk. The University is exposed to basis risk on the pay fixed interest rate swap because the variable-rate payments received is based on a different rate than the University pays on its 2001 Series variable rate debt. As of June 30, 2014, the interest rate on the University's pay-fixed interest rate swap is benchmarked to 67% of one-month LIBOR, which is 0.13%. The variable-interest rate paid on the University's debt is not benchmarked to a reference rate but is reset weekly by the Remarketing Agent based upon market conditions and the University's credit rating. At June 30, 2014, the interest rate upon the demand bond was 0.06%.

Termination risk. The University or its counterparty may terminate the swap if the other party fails to perform under the terms of the contract.

NOTES TO THE FINANCIAL STATEMENTS*N.C. Central University*

Interest rate risk. N.C. Central University (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 decreased since the effective date of the swap, the swap has a negative fair value as of June 30, 2014. The negative fair value is countered by a reduction in total interest payments required under the variable-rate bonds. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

Basis risk. The swap exposes the University to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The University receives 70% of a one-month LIBOR from the counterparty and pays a floating rate to its bondholders set by the Remarketing Agent. The University incurs basis risk when its bonds trade at a yield above 70% of LIBOR. If the relationship of the University's bonds trade to a percentage of LIBOR greater than 70%, the University will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The swap contract uses the 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. As of June 30, 2014, no termination events had occurred and there was no known date when the derivative instrument may be terminated. The swap agreement is terminated if the University or the counterparty fails to perform under the contract. There were no out of the ordinary termination events as of June 30, 2014.

Rollover risk. The University is exposed to rollover risk when the swap matures on October 1, 2024. When the swap matures, the interest rate on the underlying debt will return to a variable rate. The bonds mature on October 1, 2034.

UNC Hospitals

Interest rate risk. UNC Hospitals (Hospitals) is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2014. 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 Hospitals' variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease. The fair values reported are the market values as of June 30, 2014.

Basis risk. The Hospitals receives 67% of one-month LIBOR from Bank of America, N.A. and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of one-month LIBOR. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR is greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The derivative contracts use the ISDA Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

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 Investment Pool maintained by the State Treasurer has investments in U.S. dollar equity futures and commodity futures. The investment disclosures for these derivatives are included as part of the equity based trust and inflation portfolios which are included in the Investment Pool. More detailed information about the Investment Pool is presented in Note 3A.

Component Units

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

NOTES TO THE FINANCIAL STATEMENTS**University of North Carolina System***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, 2014. 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, 2014. 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 SIFMA. On June 30, 2014, SIFMA was 0.06%. The interest rate swap has a notional amount of \$17.76 million and matures November 1, 2025.

Foreign currency risk. 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.

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 are three SGICs with The Prudential Insurance Company of America (Prudential) 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 2.02%, 2.02%, 2.02%, and 1.32%, respectively. The fair value of the securities covered by the contracts as of December 31, 2013, is \$1.02 billion and the contract value is \$1.01 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 are three SGICs with Prudential and one SGIC with American General which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.1%, 2.1%, 2.1%, and 1.33%, respectively. The fair value of the securities covered by the contracts as of December 31, 2013, is \$213 million and the contract value is \$209 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 and American General to assure that the crediting rate on participant investments will not be less than zero. The wrap contracts with Prudential 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, 2014, was as follows (dollars in thousands):

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	\$ 3,999,580	\$ 306,685	\$ (699,165)	\$ 3,607,100	\$ 369,240
Special indebtedness:					
Lease-purchase revenue bonds	20,915	—	(16,790)	4,125	2,125
Certificates of participation	508,500	—	(260,885)	247,615	42,390
Limited obligation bonds	1,993,740	199,570	(61,225)	2,132,085	79,660
GARVEE bonds	454,820	—	(59,545)	395,275	62,040
Issuance premium	623,105	98,789	(162,966)	558,928	—
Total bonds and similar debt payable	<u>7,600,660</u>	<u>605,044</u>	<u>(1,260,576)</u>	<u>6,945,128</u>	<u>555,455</u>
Notes payable	39,312	6,704	(6,278)	39,738	5,643
Capital leases payable	19,367	29	(1,527)	17,869	1,524
Compensated absences	425,714	261,613	(266,742)	420,585	32,680
Net pension obligation	1,227	34,023	(34,104)	1,146	—
Workers' compensation	150,251	90,927	(63,464)	177,714	55,299
Death benefit payable	400	90	—	490	350
Pollution remediation payable	6,277	1,050	(323)	7,004	32
Claims and judgments payable	<u>741,703</u>	<u>—</u>	<u>—</u>	<u>741,703</u>	<u>10,000</u>
Governmental activity long-term liabilities	<u>\$ 8,984,911</u>	<u>\$ 999,480</u>	<u>\$ (1,633,014)</u>	<u>\$ 8,351,377</u>	<u>\$ 660,983</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 1,058,458	\$ —	\$ (19,150)	\$ 1,039,308	\$ 19,720
GARVEE bonds	145,535	—	—	145,535	—
Issuance premium	28,661	—	(2,729)	25,932	—
Issuance discount	<u>(1,896)</u>	<u>—</u>	<u>116</u>	<u>(1,780)</u>	<u>—</u>
Total bonds payable	1,230,758	—	(21,763)	1,208,995	19,720
Notes payable	377,466	107	(704)	376,869	217
Annuity and life income payable	53,820	8,652	(4,154)	58,318	4,604
Federal unemployment account advances	2,154,771	486,716	(1,660,501)	980,986	980,986
Compensated absences	<u>7,417</u>	<u>5,479</u>	<u>(5,285)</u>	<u>7,611</u>	<u>693</u>
Business-type activity long-term liabilities	<u>\$ 3,824,232</u>	<u>\$ 500,954</u>	<u>\$ (1,692,407)</u>	<u>\$ 2,632,779</u>	<u>\$ 1,006,220</u>

For governmental activities, the compensated absences, net pension obligation, 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 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 \$5.86 million and capital leases payable of \$323 thousand.

NOTES TO THE FINANCIAL STATEMENTS

Component Unit (University of North Carolina System). Long-term liability activity for the year ended June 30, 2014, was as follows (dollars in thousands):

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014	Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	\$ 3,778,626	\$ 334,414	\$ (177,356)	\$ 3,935,684	\$ 237,179
Certificates of participation	228,710	—	(5,690)	223,020	4,145
Issuance premium	103,446	23,523	(6,430)	120,539	—
Issuance discount	(17,028)	(1,509)	3,616	(14,921)	—
Total bonds payable	4,093,754	356,428	(185,860)	4,264,322	241,324
Notes payable	317,501	125,618	(88,782)	354,337	22,612
Capital leases payable	45,418	9,395	(8,419)	46,394	9,557
Arbitrage rebate payable	225	100	—	325	—
Annuity and life income payable	21,847	2,244	(3,011)	21,080	1,439
Compensated absences	382,397	292,026	(285,106)	389,317	51,616
Pollution remediation payable	10	75	—	85	75
Liability insurance trust fund payable	44,282	1,589	(4,028)	41,843	8,696
Total long-term liabilities	<u>\$ 4,905,434</u>	<u>\$ 787,475</u>	<u>\$ (575,206)</u>	<u>\$ 5,117,703</u>	<u>\$ 335,319</u>

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2014, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of \$170.841 million, of which \$11.455 million was due within one year and \$159.386 million was due in more than one year.

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

Bonds, special indebtedness, and notes payable at June 30, 2014 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% - 5.50%	2030	\$ 6,112,845	\$ 3,607,100
Special indebtedness:				
Lease-purchase revenue bonds.....	3.50% - 5.25%	2016	272,045	4,125
Certificates of participation.....	4.00% - 5.00%	2028	888,385	247,615
Limited obligation bonds.....	2.25% - 5.25%	2033	2,316,920	2,132,085
GARVEE bonds.....	2.00% - 5.21%	2021	709,625	395,275
Notes payable.....	0.00% - 3.86%	2030	55,180	39,738
<u>Business-type activities</u>				
Revenue bonds**.....	2.48% - 7.10%	2042	\$ 1,081,183	\$ 1,039,308
GARVEE bonds.....	2.00% - 4.00%	2023	145,535	145,535
Notes payable.....	2.11% - 4.85%	2043	378,156	376,869
Component Units:				
<u>University of North Carolina System</u>				
Revenue bonds**.....	0.04% - 9.05%*	2044	\$ 4,460,655	\$ 3,935,684
Certificates of participation.....	2.00% - 5.25%	2039	241,165	223,020
Notes payable.....	0.00% - 6.75%*	2033	399,868	354,337

* For variable rate debt, interest rates in effect at June 30, 2014 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 \$425.55 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 lease-purchase revenue bonds, 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. Bonds Authorized but Unissued

The amount of authorized but unissued special indebtedness of the primary government at June 30, 2014 totaled \$502.7 million as follows: university projects \$115.6 million, psychiatric hospitals \$83.3 million, correctional facilities \$2.4 million, guaranteed energy savings contracts \$296.9 million, and State and other projects \$4.5 million. At June 30, 2014, the State had no authorized but unissued general obligation bonds.

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.

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***The University of North Carolina at Chapel Hill*

With regards 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) that 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 Banc of America Securities, LLC (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”) and \$200 million with J.P. Morgan Chase, N.A. (“the Bank”) on September 21, 2011. 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 of 0.38% 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.

S&P	Fitch	Moody's	Facility Fee
AA	AA	Aa2	0.48%
AA-	AA-	Aa3	0.58%
A+	A+	A1	0.68%
A	A	A2	0.78%
A- or lower	A- or lower	A3 or lower	1.78%

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.

Each line of credit agreement expires on September 21, 2014 and is 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 a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody’s. At June 30, 2014, no purchase drawings had been made under the line of credit. On September 19, 2014,

NOTES TO THE FINANCIAL STATEMENTS

the University entered into new line of credit agreements, maintaining an aggregate coverage amount of \$400 million, with \$200 million from Wells Fargo Bank, N.A., \$100 million from Royal Bank of Canada, and \$100 million from U.S. Bank, N.A.

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". The 2012D Bond was issued in the amount of \$41 million and matures on August 18, 2016 (the "maturity date").

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.

North Carolina Central University

With regards 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.

Revenue Bonds Series, 2003A

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Demand Bonds (\$21.48 million Variable Rate Revenue Demand Bonds, Series 2003A) that have a maturity date of October 1, 2034. The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the North Carolina Central University Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds. The 2003A Bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The Student Housing Facilities Revenue Demand Bonds (Series 2003A) have an Irrevocable Letter of Credit (LOC) for \$21.82 million. The LOC is to secure the payment of the principal and purchase price of interest on the Series 2003A Bonds. The LOC is with Wells Fargo Bank, N.A. and may be extended by request from the Foundation by delivering a notice of extension to the Trustee with a

NOTES TO THE FINANCIAL STATEMENTS

new expiration date. The LOC was subsequently extended until August 31, 2016. At June 30, 2014, the LOC rate for the bonds was 1.2% and no amounts were drawn on it.

The Foundation paid Wells Fargo Bank, N.A. a commitment fee of \$109 thousand for the LOC on the date the bonds were issued. The Bonds are not under a take-out agreement; however, in the event of termination 100% of the unpaid principal will be due and payable plus any unpaid and accrued interest.

Under the LOC agreement, the proceeds of each drawing under the LOC to pay the portion of the purchase price of Series 2003A bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Foundation is required to repay each tender advance to Wells Fargo Bank, N.A. plus an interest rate of prime plus 1%. According to the Reimbursement Agreement Amendment dated May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made, and/or the termination date.

The Student Housing Facilities Revenue Demand Bonds (Series 2003A) has a remarketing fee. The remarketing fee is an upfront charge to reset the interest rates on a weekly basis. The Remarketing Agent is Wells Fargo Bank, N.A. for the Series 2003A Bonds. At June 30, 2014, the remarketed rate for the bonds was 0.05%.

North Carolina 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, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Wells Fargo Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003 and on each October 1, January 1, April 1, and July 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 Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). 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 month in which Liquidity Provider Bonds are outstanding. At June 30, 2014, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, 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 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the purchase date along with accrued interest at the Liquidity Provider rate. In the event the outstanding \$42.82 million of demand bonds was "put" and not resold, the University would be required to pay \$15 million a year for three years under this agreement assuming a 3.25% interest rate.

General Revenue Bonds, Series 2008A

On July 10, 2008 the University issued tax-exempt variable rate revenue demand bonds in the amount of \$66.61 million that have a final maturity date of October 1, 2028. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2014. 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

NOTES TO THE FINANCIAL STATEMENTS

refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2008A 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, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Citigroup Global Markets, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wells Fargo Bank, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.39% of the available commitment, payable quarterly in arrears, beginning on October 1, 2012 and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the 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 base rate (the greater of the bank prime commercial lending rate plus 1%, the federal funds rate plus 2%, or 7%) for 180 days. Beginning on day 181 (the amortization date), the Bank Bonds become Term Bonds and bear interest at the base rate plus 1%. 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 the first business day of each month in which Bank Bonds are outstanding. At June 30, 2014, there were no Bank Bonds held by the Liquidity Facility. The initial Liquidity Facility expiration date is July 6, 2015, unless otherwise extended based on the terms of the Agreement.

After the amortization date, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semiannual installments, rounded to the nearest Authorized Denomination, beginning the first business day of the month immediately following the commencement of the Term Bank Bond period. In the event the outstanding \$66.61 million of demand bonds was "put" and not resold, the University would be required to pay \$25 million a year for three years under this agreement assuming an 8% interest rate.

University of North Carolina Hospitals at Chapel Hill

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, with the exception of Series 2009A Revenue Refunding bonds, for which the University of North Carolina Hospitals acts as its own liquidity facility.

Revenue Bonds, Series 2001A and Series 2001B

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

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. The Hospitals' Remarketing Agents, Merrill Lynch; Pierce, Fenner & Smith Inc. (Series 2001A); and Banc of America Securities, LLC (Series 2001B) 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 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thüringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the fiscal year, the percentage was 0.58% with the long-term agreement amended in 2011. 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.

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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, 2014, 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 \$93.6 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$24.35 million, \$23.47 million, \$22.16 million, \$20.85 million, and \$19.54 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a base rate of 4.25% (Prime Rate plus 1%) for the first 60 days and a maximum rate of 7% thereafter.

The current expiration date of the Agreements is December 31, 2015. 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 and 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 0.36% for fiscal year 2014. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter until July 1, 2014. The long-term agreement was renegotiated in June 2014 with a decrease in liquidity fee to 0.34% effective July 1, 2014 through July 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 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	0.56%
A- or lower	A3 or lower	0.76%

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

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime Rate plus

NOTES TO THE FINANCIAL STATEMENTS

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, 2014, 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 \$60.03 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$22.82 million, \$22.02 million, and \$20.87 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 4.75% (Prime plus 1.5%).

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.35% for fiscal year 2014. 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 Even 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, 2014, 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 \$32.27 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$10.83 million, \$13.61 million, and \$12.48 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

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a business day not less than seven days before the purchase date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S. Bank, N.A., no later than noon on such purchase date. The Hospitals' Remarketing Agent, Banc of America 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 0.09% of the weighted average daily principal amount of Series 2009A bonds outstanding during such periods in which the Series 2009A bonds are variable rate bonds.

Under a separate liquidity agreement with the Trustee, the Hospitals has established itself as Liquidity Facility 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. Upon receipt of any notice from the Remarketing Agent that there is a projected funding amount on the business day prior to each purchase date or mandatory purchase date, and upon receipt of written demand for payment from the Tender Agent by noon on each purchase date or mandatory purchase date, the Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the actual funding amount, which shall be equal to the purchase price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the purchase date or mandatory purchase date. The Hospitals is its own liquidity provider for the Series 2009A bonds. As a result, there is no established arm's-length agreement with an unrelated third party to convert the bonds "put" but not resold into a form of long-term obligation. Therefore, the Series 2009A bonds are classified as current liabilities.

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, 2014 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		Lease-Purchase Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 369,240	\$ 170,997	\$ 42,390	\$ 11,789	\$ 2,125	\$ 151
2016	370,570	151,574	37,350	9,679	2,000	51
2017	368,335	132,635	27,415	7,812	—	—
2018	379,425	116,190	22,935	6,441	—	—
2019	381,970	98,146	23,485	5,294	—	—
2020-2024	1,348,680	263,646	37,070	15,360	—	—
2025-2029	364,495	42,107	56,970	7,438	—	—
2030-2034	24,385	1,219	—	—	—	—
Total	<u>\$ 3,607,100</u>	<u>\$ 976,514</u>	<u>\$ 247,615</u>	<u>\$ 63,813</u>	<u>\$ 4,125</u>	<u>\$ 202</u>

Fiscal Year Ending June 30	Governmental Activities					
	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 79,660	\$ 100,474	\$ 62,040	\$ 18,510	\$ 5,643	\$ 1,851
2016	88,400	96,351	64,780	15,771	6,897	871
2017	103,845	91,854	67,605	12,944	4,323	737
2018	112,295	86,703	70,805	9,747	4,555	596
2019	116,465	81,152	70,445	6,306	1,848	446
2020-2024	788,665	301,828	59,600	4,493	8,747	1,551
2025-2029	617,270	129,807	—	—	7,654	399
2030-2034	225,485	17,929	—	—	71	—
Total	<u>\$ 2,132,085</u>	<u>\$ 906,098</u>	<u>\$ 395,275</u>	<u>\$ 67,771</u>	<u>\$ 39,738</u>	<u>\$ 6,451</u>

Fiscal Year Ending June 30	Business-type Activities					
	Revenue Bonds		GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 19,720	\$ 56,138	\$ —	\$ 5,773	\$ 217	\$ 8,005
2016	8,200	55,555	—	5,773	222	17,196
2017	11,960	55,178	—	5,773	195	18,417
2018	16,070	54,621	—	5,773	179	18,385
2019	19,595	53,835	3,755	5,821	1,809	18,361
2020-2024	148,865	251,466	141,780	16,969	1,078	91,613
2025-2029	227,755	203,751	—	—	19,903	93,694
2030-2034	268,276	188,122	—	—	57,627	90,589
2035-2039	266,387	173,013	—	—	114,448	80,497
2040-2044	52,480	4,182	—	—	181,191	44,567
Total	<u>\$ 1,039,308</u>	<u>\$ 1,095,861</u>	<u>\$ 145,535</u>	<u>\$ 45,882</u>	<u>\$ 376,869</u>	<u>\$ 481,324</u>

NOTES TO THE FINANCIAL STATEMENTS**Component Unit**

Fiscal Year Ending June 30	University of North Carolina System						
	Revenue Bonds			Certificates of Participation		Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2015	\$ 118,529	\$ 153,032	\$ 17,739	\$ 4,145	\$ 10,497	\$ 22,612	\$ 10,706
2016	136,217	150,862	17,113	4,695	10,328	24,080	11,557
2017	198,932	146,241	15,510	5,035	10,136	34,337	10,198
2018	175,713	141,764	13,108	5,545	9,937	39,031	9,344
2019	178,057	137,151	10,485	6,340	9,703	21,336	8,471
2020-2024	726,498	614,419	27,710	39,450	43,735	151,547	26,435
2025-2029	736,264	482,488	6,331	50,775	33,404	55,507	6,443
2030-2034	854,709	316,076	219	62,115	19,978	5,887	250
2035-2039	621,505	109,030	—	44,920	5,311	—	—
2040-2044	189,260	20,347	—	—	—	—	—
Total	<u>\$ 3,935,684</u>	<u>\$ 2,271,410</u>	<u>\$ 108,215</u>	<u>\$ 223,020</u>	<u>\$ 153,029</u>	<u>\$ 354,337</u>	<u>\$ 83,404</u>

For revenue bonds of the University of North Carolina System, the fiscal year 2015 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 April 30, 2014, the State of North Carolina issued approximately \$307 million of tax-exempt General Obligation Refunding Bonds, Series 2014A. The bonds carry an all-in true interest cost of 1.84% and have an average life of 6.14 years. The bonds are dated April 30, 2014 and will bear interest from that date. Interest on the bonds will be payable semiannually on June 1 and December 1 commencing December 1, 2014. The bonds will mature from June 2015 through June 2025 and were issued at a coupon rate of 5%. The bonds are not 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: Clean Water, Series 1999; Public Improvement, Series 2001A, Series 2003A, 2003B, 2004A, 2005A and 2007A; Highway, Series 2004; Higher Education, Series 2006A; and to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds refunded totaled \$334.23 million with an average interest rate of 4.54%. 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 2014A refunding reduced total debt service payments by approximately \$26.8 million and resulted in an economic gain of approximately \$25.6 million. At June 30, 2014, the outstanding balance was \$259.3 million for the defeased bonds.

On May 21, 2014, the State of North Carolina issued approximately \$199.6 million of tax-exempt Limited Obligation Refunding Bonds, Series 2014B. The bonds carry an all-in true interest cost of 2.45% and have an average life of 9.35 years. The bonds are dated May 21, 2014 and will bear interest from that date. Interest on the bonds will be payable semiannually on June 1 and December 1 commencing December 1, 2014. The bonds will mature from June 1, 2017 through June 1, 2026 and were issued at a coupon rate of 5%. The bonds are not 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 North Carolina Infrastructure Finance Corporation's debt obligations as follows: Correctional Facilities Lease-Purchase Revenue Bonds, Series 2004; Correctional Facilities Certificates of Participation, Series 2004A; Capital Improvement Certificates of Participation, Series 2005A, Series 2006A, and 2007A; Repairs and Renovations Certificates of Participation, Series 2006A; and to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds refunded totaled \$218.05 million with an average interest rate of 4.94%. The net proceeds were used to purchase U.S. government securities. These securities will be 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 2014B refunding reduced total debt service payments by approximately \$26.5 million and resulted in an economic gain of approximately \$23.2 million. At June 30, 2014, the outstanding balance was \$210.1 million for the defeased bonds.

Component Unit**University of North Carolina System***Appalachian State University*

On May 6, 2014, the University issued \$12.97 million in Appalachian State University Taxable General Revenue Refunding Bonds, Series 2014B with an average interest rate of 3.43%. The bonds were issued to advance refund \$12.46 million of outstanding Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005 with an average interest rate of 4.95%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$1.09 million over the next 12 years and resulted in an economic gain of \$911 thousand. At June 30, 2014, the outstanding balance was \$12.46 million for the defeased Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005.

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, 2014, the outstanding balance of prior year defeased bonds was \$624.22 million for the primary government and \$74.92 million for the University of North Carolina System (component unit).

NOTES TO THE FINANCIAL STATEMENTS**G. Federal Unemployment Account Advances**

During fiscal year 2014, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of \$486.72 million. Proceeds from the advances were used to pay state unemployment benefits. The total amount collected from unemployment tax contributions and additional federal unemployment taxes used to pay down the principal on the repayable advances was \$1.66 billion. At year-end, the outstanding balance of the FUA advances was \$980.99 million. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. Currently, the repayable advances are payable from the unemployment tax contributions and additional federal unemployment taxes imposed on the State's employers for calendar year 2013. Both will be used specifically for paying down the debt until it is settled. Meanwhile, the State unemployment benefits will continue to be paid from the repayable advances.

H. 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 Environment and Natural Resources 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 32 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 Cultural Resources is responsible for cleaning up hazardous substances at the Tryon Palace Barbour Boatworks Site (Boatworks Site). The N.C. Department of Cultural Resources has agreed upon a remedial action plan with the Hazardous Sites Branch of DENR to voluntarily clean up the Boatworks Site.

At year-end, the State recognized a pollution remediation liability of \$7 million, of which \$6.2 million was for leaking underground fuel tanks at DOT and \$800 thousand was for the polluted site at the N.C. Department of 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 \$85 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, 2014, total operating lease expenditures were \$76.97 million for Primary Government, \$84.18 million for the University of North Carolina System, and \$8.22 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, 2014 are as follows (dollars in thousands):

Fiscal Year	Operating Leases				Capital Leases			
	Primary Government		Component Units		Primary Government		Component Units	
	Governmental Activities	Business-type Activities	University of		Governmental Activities	University of		
			North Carolina System	Community Colleges		North Carolina System	Community Colleges	
2015	\$ 46,287	\$ 2,017	\$ 54,993	\$ 6,160	\$ 2,148	\$ 10,111	\$ 3,092	
2016	38,256	1,970	43,109	4,915	2,133	8,868	2,884	
2017	29,081	425	36,737	4,188	1,963	5,849	2,858	
2018	19,344	273	31,043	3,854	1,924	5,646	2,834	
2019	13,817	167	28,130	3,300	1,916	3,866	2,809	
2020 - 2024	18,599	197	96,705	12,458	9,608	7,045	13,422	
2025 - 2029	11,228	—	49,708	7,417	1,900	1,174	11,771	
2030 - 2034	8,082	—	9,653	801	—	2,347	2,017	
2035 - 2039	8,082	—	2,024	81	—	4,508	—	
2040 - 2044	8,082	—	202	—	—	—	—	
2045 - 2049	8,082	—	82	—	—	—	—	
2050 - Beyond	4,849	—	4	—	—	—	—	
Total Future Minimum								
Lease Payments.....	\$ 213,789	\$ 5,049	\$ 352,390	\$ 43,174	21,592	49,414	41,687	
Less: Amounts Representing Interest					(3,723)	(3,020)	(15,214)	
Present Value of Future Minimum Lease Payments					\$ 17,869	\$ 46,394	\$ 26,473	

At June 30, 2014, capital assets acquired under capital leases are as follows (dollars in thousands):

	Primary	Component Units	
	Government	University of	
	Governmental Activities	North Carolina System	Community Colleges
Buildings.....	\$ 25,401	\$ 12,406	\$ 30,829
Machinery and Equipment.....	1,478	50,542	310
Other.....	—	1,792	—
Total Capital Assets.....	\$ 26,879	\$ 64,740	\$ 31,139

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 \$83.49 million due to fiduciary funds is composed of \$26.17 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as \$57.32 million related to retirement contributions payable to retirement systems at year end.

The Highway Fund balance of \$7 million and the NC Turnpike Authority balance of \$4.68 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, 2014, consisted of the following (dollars in thousands):

	Due From Other Funds					Total
	General Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	
Due To Other Funds						
General Fund.....	\$ —	\$ —	\$ 5,984	\$ 14,977	\$ 16,990	\$ 37,951
Highway Fund.....	—	—	1,058	—	3,629	4,687
Other Governmental Funds.....	62	—	21	—	567	650
Unemployment Compensation Fund.....	729	—	—	—	—	729
EPA Revolving Loan Fund.....	—	—	—	—	28	28
NC State Lottery Fund.....	4,565	—	—	—	63	4,628
NC Turnpike Authority.....	—	62	—	—	2	64
Other Enterprise Funds.....	—	—	—	—	83	83
Internal Service Funds.....	—	—	—	—	732	732
Total.....	<u>\$ 5,356</u>	<u>\$ 62</u>	<u>\$ 7,063</u>	<u>\$ 14,977</u>	<u>\$ 22,094</u>	<u>\$ 49,552</u>

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

Advances To/From Other Funds

The advance of \$24.5 million to the North Carolina Turnpike Authority from the Highway Trust Fund is related to startup operating costs.

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

Transfers in/out of other funds for the fiscal year ended June 30, 2014 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	Other Enterprise Funds	Internal Service Funds	
Transfers Out									
General Fund.....	\$ —	\$ —	\$ 258,713	\$ 10,000	\$ 7,002	\$ —	\$ 7,168	\$ 2,055	\$ 284,938
Highway Fund.....	266,054	—	1,051	—	—	—	—	—	267,105
Highway Trust Fund.....	346	32,501	—	—	—	61,201	—	—	94,048
Other Governmental Funds.....	133,348	6,799	11,937	—	7,484	—	—	23	159,591
Unemployment Compensation Fund.....	1,878	—	—	—	—	—	—	—	1,878
EPA Revolving Loan Fund.....	707	—	—	—	—	—	—	—	707
NC State Lottery Fund.....	503,135	—	1,000	—	—	—	—	—	504,135
NC Turnpike Authority	—	14,646	—	—	—	—	—	—	14,646
Other Enterprise Funds.....	813	—	486	—	—	—	—	—	1,299
Internal Service Funds.....	57	—	—	—	—	—	—	4,800	4,857
Total.....	\$ 906,338	\$ 53,946	\$ 273,187	\$ 10,000	\$ 14,486	\$ 61,201	\$ 7,168	\$ 6,878	\$ 1,333,204

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 2014.

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. The total transfer for this fiscal year was \$503.14 million, as set forth in General Statute 18C-164.

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

Fund Balance. The details of the fund balance classifications for governmental funds at June 30, 2014 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.....	\$ 73,958	\$ 88,036	\$ —	\$ 26,481	\$ 188,475
Permanent corpus.....	—	—	—	102,011	102,011
Restricted for:					
General government.....	4,956	—	—	110,232	115,188
Primary and secondary education.....	1,711	—	—	—	1,711
Higher education.....	3,796	—	—	3	3,799
Higher education student aid.....	—	—	—	500,351	500,351
Health and human services.....	20,987	—	—	1,362	22,349
Economic development.....	19,503	—	—	—	19,503
Environment and natural resources.....	18,106	—	—	25,181	43,287
Public safety, corrections, and regulation.....	14,826	—	—	39,201	54,027
Transportation.....	—	4,638	—	—	4,638
Capital projects/ repairs and renovations.....	—	—	—	87,480	87,480
Committed to:					
General government.....	207,672	—	—	43,555	251,227
Primary and secondary education.....	223,014	—	—	—	223,014
Public school capital projects/ repairs and renovations....	120,611	—	—	—	120,611
Higher education.....	77,709	—	—	—	77,709
Health and human services.....	46,864	—	—	14,265	61,129
Economic development.....	71,792	—	—	56,134	127,926
Environment and natural resources.....	98,309	—	—	177,336	275,645
Public safety, corrections, and regulation.....	29,592	—	—	126,476	156,068
Transportation.....	—	38,711	—	568	39,279
Highway construction/ preservation.....	—	36,456	878,122	—	914,578
Highway maintenance.....	—	47,031	—	—	47,031
Agriculture.....	5,035	—	—	20,764	25,799
Disaster relief.....	14,993	—	—	—	14,993
Capital projects/ repairs and renovations.....	11,585	—	—	274,372	285,957
Assigned to:					
Subsequent year's budget.....	267,370	—	—	—	267,370
General government.....	10,152	—	—	—	10,152
Higher education.....	818	—	—	—	818
Economic development.....	280	—	—	—	280
Environment and natural resources.....	1,317	—	—	—	1,317
Public safety, corrections, and regulation.....	3,343	—	—	—	3,343
Unassigned.....	195,237	—	—	—	195,237
Total fund balance.....	\$ 1,543,536	\$ 214,872	\$ 878,122	\$ 1,605,772	\$ 4,242,302

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 administered by a third party under the auspices of the State. 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 the members of that plan and for administrative costs in accordance with the terms of each plan. 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 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

BASIS OF ACCOUNTING

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.

METHODS USED TO VALUE INVESTMENTS

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its 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 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. Detailed descriptions of the methods and significant assumptions used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 3. 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 and securities lending are fully 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 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2014, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs	116
Charter Schools.....	64
Community Colleges.....	58
University of North Carolina System..	19
N.C. Housing Finance Agency.....	1
Total.....	<u>259</u>

NOTES TO THE FINANCIAL STATEMENTS

Management of the plan is vested in the TSERS 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 the State Superintendent, who serve as ex-officio members.

Benefits provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member’s average final compensation times the member’s years of creditable service. A member’s average final compensation is calculated as the average of a member’s four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). 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 (10 years for members joining on or after August 1, 2011). 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. Increases are contingent upon actuarial gains of the plan.

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 10 years of creditable service for members joining TSERS on or after August 1, 2011), 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. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially determined employer contribution established by legislation. For the fiscal year ended June 30, 2014, the State and other participating employers made statutory contributions of 8.69% of covered payroll. This was equal to the actuarially determined contribution. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Actual contributions are reported in Section F of this note.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. 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 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, 2014, the number of participating local governments was as follows:

Cities.....	426
Counties.....	100
Special Districts.....	<u>360</u>
Total.....	<u><u>886</u></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.

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

NOTES TO THE FINANCIAL STATEMENTS

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. Increases are contingent upon actuarial gains of the plan.

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. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income and by an actuarially determined employer contribution set annually by the LGERS Board of Trustees. For the fiscal year ended June 30, 2014, all employers made contributions of 7.55% of covered payroll for law enforcement officers and 7.07% for general employees and firefighters. This was equal to the actuarially determined contribution. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The State's responsibility is administrative only.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. 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, 2014, there were 1,811 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 creditable service as a firefighter or rescue squad worker, and have terminated paid duties as a firefighter or rescue squad worker. 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.

Contributions. Benefits and administrative expenses are funded by a \$10 monthly contribution by the member, investment income and an actuarially based state appropriation (see Section F for the amount). Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly.

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.

NOTES TO THE FINANCIAL STATEMENTS**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 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, 2014, there were 93 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 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 at least 10 years of service as a register of deeds 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.

Contributions. 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. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly.

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 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 – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, 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 (10 years of service for members joining CJRS on or after August 1, 2011), 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 (10 years of service for members joining CJRS on or after August 1, 2011). 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. Increases are contingent upon actuarial gains of the plan.

Contributions. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the fiscal year ended June 30, 2014, the State made a statutory contribution of 28.01% of covered payroll. This was equal to the actuarially determined contribution. Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Actual contributions are reported in Section F of this note.

NOTES TO THE FINANCIAL STATEMENTS

Refund of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. 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 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 – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, 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. Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially determined employer contributions. For the fiscal year ended June 30, 2014, there was no actuarially determined required contribution. Actuarially determined 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.

Refunds of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include interest. 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.

7. NORTH CAROLINA NATIONAL GUARD PENSION FUND

Plan administration. The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit 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 – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, who serve as ex-officio members.

Benefits provided. NGPF provides a pension of \$95 per month for 20 years of creditable military service with an additional \$9.50 per month for each additional year of such service; provided, however that the total pension shall not exceed \$190 per month.

Contributions. Benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation (see Section F for the amount). Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS***Defined Contribution Plans*****8. SHERIFFS' SUPPLEMENTAL PENSION FUND**

This plan is a defined contribution 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, 2014, there were 92 sheriffs and one beneficiary enrolled in the plan with 75 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, 2014, the Clerks remitted \$899 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

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. Subject to the employer's election to participate in the Plan, 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. Members of the 401(k) Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. At December 31, 2013, there were approximately 243,000 employees enrolled with 993 participating employers.

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, 2013, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. 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, 325 North Salisbury Street, Raleigh, NC 27603-1385.

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, 2013, 52 state agencies and component units along with 457 local governmental units outside our reporting entity contributed the required 5%. In addition, five state agencies and 443 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,800 LEOs actively participating in the 401(k) Plan and approximately 24,000 LEOs receiving employer contributions as of December 31, 2013.

The 401(k) Plan also reported total member contributions of \$305.336 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2013, amounted to \$160.099 million for the State, \$23.740 million for universities, and \$4.091 million for community colleges and other miscellaneous component units. The required 5% employer's

NOTES TO THE FINANCIAL STATEMENTS

contribution was made by the State for \$8.005 million, by universities for \$1.187 million, and by the remaining component units and community colleges for \$205 thousand. In addition, the State contributed \$389 thousand for required court cost assessments.

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.

C. Plan Membership

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

	<u>Cost-Sharing, Multiple-Employer</u>				<u>Single-Employer</u>		<u>North Carolina National Guard</u>
	<u>Teachers' and State Employees'</u>	<u>Local Govern- mental</u>	<u>Firefighters' and Rescue Squad</u>	<u>Registers of Deeds'</u>	<u>Consolidated Judicial</u>	<u>Legislative</u>	
Inactive plan members or beneficiaries currently receiving benefits	187,448	57,405	12,445	95	584	311	4,354
Inactive plan members entitled to but not yet receiving benefits	125,513	50,998	156	2	53	94	5,117
Active plan members	318,009	123,455	42,464	100	566	170	5,535
	<u>630,970</u>	<u>231,858</u>	<u>55,065</u>	<u>197</u>	<u>1,203</u>	<u>575</u>	<u>15,006</u>
Valuation date	12-31-13	12-31-13	12-31-13	12-31-13	12-31-13	12-31-13	12-31-13

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, 2014. 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, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	36.0%
Global Equity	40.5%
Real Estate	8.0%
Alternatives	6.5%
Credit	4.5%
Inflation Protection	4.5%
Total	<u>100%</u>

In July 2013, the General Assembly passed Senate Bill 558. Under this bill, the IMD was granted greater authority and flexibility with respect to investments by increasing the percentage limitations on various individual investment asset classes as well as in the aggregate. During the fiscal year ended June 30, 2014, the IMD continued to diversify the pension fund investments and conducted an asset liability study to develop a new asset allocation policy that would utilize some of the additional investment flexibility. A new asset allocation policy was finalized during the fiscal year to be effective July 1, 2014. The new asset allocation

NOTES TO THE FINANCIAL STATEMENTS

policy utilizes different asset classes, changes in the structure of certain asset classes and adopts new benchmarks. Using the asset class categories in the preceding table, the new target allocations effective July 1, 2014 are Fixed Income 29.0%, Global Equity 42.0%, Real Estate 8.0%, Alternatives 8.0%, Credit 7.0% and Inflation Protection 6.0%.

Rate of return. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

Retirement System	Money-weighted Rate of Return
Teachers' and State Employees'	15.88%
Local Governmental Employees'	15.86%
Firefighters' and Rescue Squad Workers'	15.62%
Registers of Deeds'	6.04%
Consolidated Judicial	15.87%
Legislative	15.91%
North Carolina National Guard	15.63%

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, 2014, 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	\$ 66,788,196	\$ 22,375,668	\$ 416,823	\$ 24,143	\$ 565,761	\$ 24,418	\$ 140,206
Plan fiduciary net position	(65,615,775)	(22,927,586)	(389,405)	(46,809)	(539,564)	(30,051)	(110,030)
Net pension liability (asset)	<u>\$ 1,172,421</u>	<u>\$ (551,918)</u>	<u>\$ 27,418</u>	<u>\$ (22,666)</u>	<u>\$ 26,197</u>	<u>\$ (5,633)</u>	<u>\$ 30,176</u>
Plan fiduciary net position as a percentage of the total pension liability	98.24%	102.47%	93.42%	193.88%	95.37%	123.07%	78.48%

NOTES TO THE FINANCIAL STATEMENTS

Actuarial assumptions. The total pension liability was determined by actuarial valuations as of December 31, 2013, 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, 2014 utilizing update procedures incorporating the actuarial assumptions.

The following table presents the actuarial assumptions used to determine the total pension liability for each 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
	(Note 1)	(Note 1)		(Note 1)	(Note 1)		
Valuation date	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13
Inflation	3%	3%	3.5%	3%	3%	3%	3%
Salary Increases	4.25%-9.10%	4.25%-8.55%	N/A	4.25%-7.75%	5.00%-5.95%	7.50%	N/A
Investment Rate of Return (Note 2)	7.25%	7.25%	7.25%	5.75%	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

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, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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, 2014 (see the discussion of the pension plan's investment policy in Section D) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

NOTES TO THE FINANCIAL STATEMENTS

As discussed in Section D, a new asset allocation policy was finalized during the fiscal year to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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 5.75%. 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.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the plans calculated using the discount rate of 7.25% (5.75% 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 4.75%) or 1-percentage-point higher (8.25%; RODSPF 6.75%) 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>			
Teachers' and State Employees' net pension liability (asset)	\$ 8,416,451	\$ 1,172,421	\$ (4,944,107)
Local Governmental Employees' net pension liability (asset)	\$ 2,040,727	\$ (551,918)	\$ (2,735,133)
Firefighters' and Rescue Squad's net pension liability (asset)	\$ 76,699	\$ 27,418	\$ (13,861)
<u>Single-Employer</u>			
Consolidated Judicial's net pension liability (asset)	\$ 80,338	\$ 26,197	\$ (20,692)
Legislative's net pension liability (asset)	\$ (3,859)	\$ (5,633)	\$ (7,190)
North Carolina National Guard's net pension liability	\$ 46,567	\$ 30,176	\$ 16,578
	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
<u>Cost-Sharing, Multiple-Employer</u>			
Register of Deeds' net pension liability (asset)	\$ (20,353)	\$ (22,666)	\$ (24,654)

NOTES TO THE FINANCIAL STATEMENTS**F. GASB Statement 27 Employer Reporting****1. ACTUARIAL METHODS AND ASSUMPTIONS**

The latest actuarial valuations are dated December 31, 2013. The actuarial accrued liability and the schedule of funding progress for the past three years are presented by system in the *Required Supplementary Information* section of this report. Actuarial valuations involve estimates of reported amounts and assumptions about the probability of the occurrence of events. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Cost Method</i>	<i>Amortization Method</i>	<i>Remaining Amortization Period</i>	<i>Period Open/Closed</i>	<i>Asset Valuation Method</i>	<i>Actuarial Assumptions</i>	
							<i>Investment Rate of Return</i>	<i>Projected Salary Increase</i>
Teachers' and State Employees'	12/31/13	Entry Age	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
Local Governmental Employees'	12/31/13	Frozen Entry Age	Level Percent	10 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%
Firefighters' and Rescue Squad	12/31/13	Entry Age	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
Registers of Deeds'	12/31/13	Entry Age	Level Dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
Consolidated Judicial	12/31/13	Projected Unit Credit	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
Legislative	12/31/13	Projected Unit Credit	Level Dollar	8 years	Open	5 year smoothed	7.25%	7.50%
North Carolina National Guard	12/31/13	Entry Age	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A

N/A-Not applicable

As of this valuation, the unfunded actuarial accrued liability for the Registers of Deeds' system, when amortized over 30 years is less than zero. This situation, which is not allowable under generally accepted accounting principles, is redefined by the actuary to effectively mean there is no liability to be amortized.

Within the actuarial assumptions, the projected investment returns for all systems, except the Firefighters' and Rescue Squad Workers' and Legislative, include a 3.0% inflation factor and the projected salaries for the Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial and Register of Deeds' includes a 3.5% inflation and productivity factor. The assumption for the Legislative system does not identify an inflationary factor. The assumption for the Firefighters' and Rescue Squad Workers' includes a 3.5% inflationary factor. The funding status of each of the State's various plans on the date of the most recent actuarial valuation is presented in part three of this section.

CURRENT FISCAL YEAR ASSUMPTIONS

Unless otherwise noted in this footnote or in the required supplementary schedules, the actuarial values, methods and significant assumptions for the current year's required contributions are the same as those presented in the table shown above. The annual required contributions (ARC) for the fiscal year ended June 30, 2014, were developed from various prior valuations. The Teachers' and State Employees', Local Governmental Employees', Register of Deeds', Consolidated Judicial, Legislative, and National Guard systems' valuations were as of December 31, 2011, and the Firefighters' and Rescue Squad Workers' system was valued at June 30, 2012.

NOTES TO THE FINANCIAL STATEMENTS**2. ANNUAL PENSION COST AND NET PENSION OBLIGATION**

The annual pension costs and net pension obligations for the State's single-employer and special funding defined benefit plans for the current fiscal year are as follows (dollars in thousands):

	Firefighters' and Rescue Squad Workers' Pension Fund	Consolidated Judicial Retirement System	Legislative Retirement System	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 14,620	\$ 19,477	\$ —	\$ 5,349
Interest on net pension obligation.....	62	27	(8)	(342)
Adjustment to annual required contribution.....	(112)	(51)	18	645
Annual pension cost.....	14,570	19,453	10	5,652
Less: Contributions made.....	(14,627)	(19,477)	—	(7,007)
Increase (decrease) in net pension obligation.....	(57)	(24)	10	(1,355)
Net pension (asset) obligation beginning of year...	852	375	(113)	(4,718)
Net pension (asset) obligation end of year.....	<u>\$ 795</u>	<u>\$ 351</u>	<u>\$ (103)</u>	<u>\$ (6,073)</u>

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the annual required contributions (ARC) the State made to the Teachers' and State Employees' Retirement System (TSERS), a cost-sharing, multiple-employer plan. The State's statutory annual contribution to the System equals its total annual payment to the System and equals the State's pension cost in these financial statements. The State does not make any contributions to the Local Governmental Employees' System; therefore, it has no related pension cost.

**State of North Carolina's Annual Pension Cost (APC)
and Annual Required Contributions (ARC) as an Employer**
For the Years Ended June 30, 2012 through June 30, 2014 (dollars in thousands)

	<i>Teachers' and State Employees'</i>	<i>Firefighters' and Rescue Squad</i>	<i>Consolidated Judicial</i>	<i>Legislative</i>	<i>North Carolina National Guard</i>
Primary Government:					
2014	\$ 284,461	\$ 14,570	\$ 19,453	\$ 10	\$ 5,652
2013	276,182	13,934	18,476	10	5,898
2012	242,963	14,239	17,177	13	6,259
Component units:					
Universities:					
2014	\$ 181,611				
2013	173,726				
2012	152,850				
Community Colleges:					
2014	\$ 74,159				
2013	70,660				
2012	60,670				
Proprietary Funds:					
2014	\$ 668				
2013	624				
2012	1,041				
Total Primary Government and Component Units:					
2014	\$ 540,899	\$ 14,570	\$ 19,453	\$ 10	\$ 5,652
2013	521,192	13,934	18,476	10	5,898
2012	457,524	14,239	17,177	13	6,259
Percentage of APC Contributed:					
2014		100%	100%	0%	124%
2013		111%	100%	0%	119%
2012		101%	100%	0%	112%
Percentage of ARC Contributed:					
2014	100%				
2013	104%				
2012	100%				
Net Pension (Asset) Obligation:					
2014		\$ 795	\$ 351	\$ (103)	\$ (6,073)
2013		852	375	(113)	(4,718)
2012		2,365	401	(123)	(3,609)

NOTES TO THE FINANCIAL STATEMENTS**3. FUNDING STATUS AND FUNDING PROGRESS**

The funding status of each of the State's various plans at the most recent actuarial valuation is presented below. These schedules were developed from actuarial methods and assumptions identified in part one of this section. Multiyear trend information on funding progress is presented in the *Required Supplementary Information (RSI)* section of this CAFR. These schedules indicate whether the actuarial values of plan assets are increasing or decreasing over time in relation to the actuarial accrued liabilities (dollars in thousands).

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
Teachers' and State Employees'	12-31-13	\$ 62,363,807	\$ 65,805,555	\$ 3,441,748	94.8%	\$ 12,834,121	26.8%
Local Governmental Employees'	12-31-13	\$ 21,498,147	\$ 21,537,813	\$ 39,666	99.8%	\$ 5,241,858	0.8%
Firefighters' and Rescue Squad Workers'	12-31-13	\$ 364,836	\$ 413,054	\$ 48,218	88.3%	N/A	N/A
Registers of Deeds'	12-31-13	\$ 46,406	\$ 24,064	\$ (22,342)	192.8%	\$ 5,960	(374.8)%
Consolidated Judicial	12-31-13	\$ 506,788	\$ 549,345	\$ 42,557	92.3%	\$ 68,457	62.2%
Legislative	12-31-13	\$ 29,318	\$ 24,557	\$ (4,761)	119.4%	\$ 3,579	(133.0)%
North Carolina National Guard	12-31-13	\$ 103,300	\$ 140,022	\$ 36,722	73.8%	N/A	N/A

N/A-Not applicable

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 .85% of the officer's most recent base rate of compensation for each year of creditable service. For the fiscal year ended June 30, 2014, the State and its major component units paid \$16.2 million for 973 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.

H. Optional Retirement Program

The Optional Retirement Program (ORP) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in institutions of the University of North Carolina (UNC) System may join the ORP instead of the Teachers' and State Employees' Retirement System. At June 30, 2014, the plan had 16,584 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 and the College Retirement Equities Fund (TIAA/CREF), Valic, Fidelity Investments and Lincoln National Life Insurance Company. 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 contribute 6% of compensation and the university contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed \$103.8 million for the fiscal year ended June 30, 2014. Annual covered payroll was \$1.5 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 \$91.1 million for the fiscal year ended June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: DEFERRED COMPENSATION PLANS

1. IRC SECTION 457 PLAN

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, 2013, there were approximately 48,400 plan members with 301 employers participating.

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, 2013 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, 325 North Salisbury Street, Raleigh, NC 27603-1385.

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) PLAN

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 create a State sponsored 403(b) Plan entitled the North Carolina Public School Teachers' and Professional Educators' Investment Plan. The State sponsored 403(b) Plan is available to all local school Boards of Education across the State. Each individual Board of Education will have the discretion to adopt the state sponsored 403(b) Plan.

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 Investment Pool. Detailed descriptions of the methods and significant assumptions used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 3. The investment balance of the Disability Income Plan and the Retiree Health Benefit Fund are invested in the State Treasurer 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 and securities lending 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, 2014, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs.....	116
Charter Schools.....	64
Community Colleges.....	58
University of North Carolina System.....	19
N.C. Housing Finance Agency.....	1
Local governments.....	<u>16</u>
Total.....	<u>275</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 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, 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 5.4% 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 150. 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 creditable 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 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

NOTES TO THE FINANCIAL STATEMENTS

for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. 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, 2014, the State and the other employers made a statutory contribution of 0.44% of covered payroll. This was equal to the actuarially required contribution. The State's total payments are shown in the table on page 150. 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

State of North Carolina's Required Contributions as an Employer
For the Years Ended June 30, 2012 through June 30, 2014
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2014	\$ 176,765	\$ 14,403
2013	175,722	14,588
2012	163,282	16,981
Component units:		
Universities:		
2014	\$ 197,870	\$ 16,123
2013	189,556	15,737
2012	172,664	17,957
Community Colleges:		
2014	\$ 46,083	\$ 3,755
2013	44,958	3,732
2012	40,773	4,240
Proprietary Funds:		
2014	\$ 415	\$ 34
2013	397	33
2012	700	73
Total Primary Government and Component Units:		
2014	\$ 421,133	\$ 34,315
2013	410,633	34,090
2012	377,419	39,251
Percentage Contributed:		
2014	100%	100%
2013	100%	100%
2012	100%	100%

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	197,195	NA
Disabled members receiving long term disability benefits	NA	7,012
Terminated employees entitled to benefits but not yet receiving them	31,610	-
Active plan members	343,049	325,642
Total	<u>571,854</u>	<u>332,654</u>
Date of valuation	12/31/13	12/31/13

NOTES TO THE FINANCIAL STATEMENTS

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) (3)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
Retiree Health (1)	12/31/13	\$ 890,756	\$ 26,420,168	\$ 25,529,412	3.4%	\$ 15,080,627	169.3%
Disability Income (2)	12/31/13	\$ 442,422	\$ 522,940	\$ 80,518	84.6%	\$ 14,294,017	0.6%

(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.

The Segal Company reported the adjusted, annualized payroll for postemployment health benefits.

Multiyear trend information on funding progress is presented in the *Required Supplementary Information (RSI)* 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, 2013. The latest actuarial valuation for DIPNC is dated December 31, 2013. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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	12/31/13	12/31/13
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value of Assets	5 year smoothed with 80%/120% corridor
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	5.75%
Healthcare Cost Trend Rate (2)	7.5% graded to 5% over 8 years	N/A
Projected Salary Increases (3)	Vary by group and years of service	4.3% - 9.1%

- (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. The information presented is intended to approximate the funding progress of the plan.
- (2) For the Retiree Health Benefit, the investment rate of return includes an inflation and productivity rate of 3.5%. The healthcare cost trend rate includes 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 88 out of 116 LEAs and 31 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims since any salvage is adjusted in the claim settlement. There are no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period.

The 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	
	2014	2013
Unpaid claims at beginning of year	\$ 7,960	\$ 23,895
Incurred claims:		
Provision for insured events		
of the current year	8,585	6,386
Increases (decreases) in provision		
for insured events of prior years	(6,453)	(5,471)
Total incurred claims	<u>2,132</u>	<u>915</u>
Payments:		
Claims attributable to insured		
events of the current year	1,845	1,975
Claims attributable to insured		
events of the prior years	<u>1,086</u>	<u>14,875</u>
Total payments	<u>2,931</u>	<u>16,850</u>
Total unpaid claims at end		
of the year	<u>\$ 7,161</u>	<u>\$ 7,960</u>

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.

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 a 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
2012-13	\$ 244,060	\$ 2,491,957	\$ (2,490,686)	\$ 245,331
2013-14	245,331	2,606,997	(2,619,652)	232,676

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, 2013 to June 30, 2014, 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 2013 to June 2014.

NOTES TO THE FINANCIAL STATEMENTS

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):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2012-13	\$ 3,533	\$ 45,620	\$ (45,671)	\$ 3,482
2013-14	3,482	44,612	(44,134)	3,960

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 succeeding at least 365 calendar days after service 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. 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 the Plan 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 \$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.

NOTES TO THE FINANCIAL STATEMENTS

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
2012-13	\$ 1,553	\$ 372	\$ (806)	\$ 1,119
2013-14	1,119	1,238	(1,017)	1,340

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 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 Environment and Natural Resources, 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 Environment and Natural Resources, 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, 2013 and June 30, 2014, 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, 2013 and June 30, 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ending June 30, 2014, 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 \$44.282 million and \$41.842 million are the present values of the aggregate actuarially determined claims liabilities of \$40.656 million and \$49.48 million, discounted at 0.5% at June 30, 2013 and 0.5% at June 30, 2014.

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
2012-13	\$ 48,885	\$ 5,482	\$ (10,085)	\$ 44,282
2013-14	44,282	1,588	(4,028)	41,842

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 Statewide Workers' Compensation Program (the Program) was created by Chapter 97, Article 1; Chapter 115C, Article 23; and Chapter 115D, Article 2 of the General Statutes to provide benefits to workers injured on the job. The program includes all employees of the State, universities and certain other component units. The program also includes community college employees and employees of Local Education Agencies (LEAs) whose salaries are paid with State funds. Although the LEAs are not part of the State reporting entity, the State is responsible for the workers' compensation liability of the state-funded LEA employees. Similarly, although community colleges are component units of the State, the primary government is responsible for the workers' compensation liability of state-funded college employees.

An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Also, certain occupational diseases specifically designated in the North Carolina Workers' Compensation Act are compensable. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits. Payments of all medical benefits are subject to approval based on a fee schedule established by the North Carolina Industrial Commission (NCIC). Loss of wages and disability benefits are payable based on 66 2/3% of an employee's average weekly salary subject to a statutory compensation rate minimum and

NOTES TO THE FINANCIAL STATEMENTS

maximum established annually by the NCIC. Death benefits are payable for 500 weeks at 66 2/3% of an employee's average weekly salary. In certain instances, death benefits may be extended beyond the 500 weeks.

The responsibility for claiming compensation is on the injured employee. If the injured employee or his representative does not notify the employer within 30 days from the date of injury, the employer can refuse compensation. A claim must be filed with the NCIC by either the employee or the employer 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 arrange for and provide the necessary treatment for any work-related injury. 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.

The State and its component units are self-insured for workers' compensation. A third-party administrator handles workers' compensation claims. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. This fund is reported as an internal service fund. The third party administrator receives a per case administration fee and draws down state funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act. The Department of Public Instruction administers the Program for the State funded LEA employees through the same third party administrator.

Each state agency and participating component unit is billed for claims and an administrative fee paid to the third party administrator. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. The workers' compensation liability is recognized when it is probable and reasonably estimated. This liability is presented as a component of the Governmental Activities Long-Term Liabilities.

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
2012-13	\$ 136,732	\$ 73,227	\$ (59,708)	\$ 150,251
2013-14	150,251	90,927	(63,464)	177,714

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, 2014, the Fund consisted of 1,120 eligible units representing approximately 42,787 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, 2014, 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.

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

NOTES TO THE FINANCIAL STATEMENTS

loss and aggregate reinsurance policies. As of June 30, 2014, there are claims recoverable from reinsurers in the amount of \$100 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
2012-13	\$ 18,991	\$ 10,665	\$ (11,075)	\$ 18,581
2013-14	18,581	10,523	(7,554)	21,550

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, 2014 are presented below.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

(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.....	\$ 103,711	\$ 784	\$ 49	\$ 971	\$ 1,341	\$ 59,357
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts....	—	—	—	—	—	—
State Treasurer investment pool.....	65,410,227	536,951	30,000	388,455	108,732	22,831,512
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	2,600,635	21,300	1,202	15,472	4,442	907,668
Receivables:						
Accounts receivable.....	3,356	1	5	34	9	3,490
Interest receivable.....	112	1	—	1	1	42
Contributions receivable.....	67,362	—	—	—	—	39,885
Due from other funds.....	39,066	1,972	—	—	—	—
Due from component units.....	7,417	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	<u>68,231,886</u>	<u>561,009</u>	<u>31,256</u>	<u>404,933</u>	<u>114,525</u>	<u>23,841,954</u>
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	1,484	—	—	—	14	453
Obligations under securities lending.....	2,608,346	21,394	1,196	15,528	4,481	913,899
Funds held for others.....	6,281	51	9	—	—	16
Total Liabilities.....	<u>2,616,111</u>	<u>21,445</u>	<u>1,205</u>	<u>15,528</u>	<u>4,495</u>	<u>914,368</u>
Net Position						
Restricted for:						
Pension benefits.....	65,615,775	539,564	30,051	389,405	110,030	22,927,586
Postemployment benefits.....	—	—	—	—	—	—
Other employment benefits.....	—	—	—	—	—	—
Total Net Position.....	<u>\$ 65,615,775</u>	<u>\$ 539,564</u>	<u>\$ 30,051</u>	<u>\$ 389,405</u>	<u>\$ 110,030</u>	<u>\$ 22,927,586</u>

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	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
\$ —	\$ —	\$ 8,510	\$ 128,531	\$ 7,515	\$ 935	\$ 83	\$ 311,787
198,366	40,056	—	—	—	—	—	238,422
667,580	142,994	—	—	—	—	—	810,574
1,005,925	209,176	—	—	—	—	—	1,215,101
—	—	401,944	834,433	400,387	—	46,727	90,989,368
5,446,576	684,730	—	—	—	—	—	6,131,306
—	—	51,791	49,039	51,568	121	5,918	3,709,156
245	46	—	—	25,448	—	—	32,634
—	—	8	44	4	—	—	213
3,804	243	741	30,308	2,465	—	69	144,877
—	—	426	14,681	1,171	—	—	57,316
—	—	65	3,956	334	—	—	11,772
273,171	16,627	—	—	—	—	—	289,798
<u>7,595,667</u>	<u>1,093,872</u>	<u>463,485</u>	<u>1,060,992</u>	<u>488,892</u>	<u>1,056</u>	<u>52,797</u>	<u>103,942,324</u>
1,040	311	94	—	—	—	—	1,445
—	—	3,960	1,673	128	—	—	7,712
—	—	52,485	49,237	52,161	117	5,988	3,724,832
—	—	—	—	178	—	—	6,535
<u>1,040</u>	<u>311</u>	<u>56,539</u>	<u>50,910</u>	<u>52,467</u>	<u>117</u>	<u>5,988</u>	<u>3,740,524</u>
7,594,627	—	—	—	—	939	46,809	97,254,786
—	—	—	1,010,082	436,425	—	—	1,446,507
—	1,093,561	406,946	—	—	—	—	1,500,507
<u>\$ 7,594,627</u>	<u>\$ 1,093,561</u>	<u>\$ 406,946</u>	<u>\$ 1,010,082</u>	<u>\$ 436,425</u>	<u>\$ 939</u>	<u>\$ 46,809</u>	<u>\$ 100,201,800</u>

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

For the Fiscal Year Ended June 30, 2014

(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.....	\$ 1,177,341	\$ 21,390	\$ —	\$ —	\$ —	\$ 413,175
Members.....	825,548	5,599	253	2,781	—	346,961
Other contributions.....	—	—	—	14,627	7,007	—
Total contributions.....	<u>2,002,889</u>	<u>26,989</u>	<u>253</u>	<u>17,408</u>	<u>7,007</u>	<u>760,136</u>
Investment Income:						
Investment earnings.....	9,500,013	77,389	4,470	56,085	15,566	3,293,723
Less investment expenses.....	(379,008)	(3,095)	(177)	(2,244)	(624)	(131,758)
Net investment income	<u>9,121,005</u>	<u>74,294</u>	<u>4,293</u>	<u>53,841</u>	<u>14,942</u>	<u>3,161,965</u>
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,225
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	326	1	—	3	1	71
Total other additions.....	<u>326</u>	<u>1</u>	<u>—</u>	<u>3</u>	<u>1</u>	<u>3,296</u>
Total additions.....	<u>11,124,220</u>	<u>101,284</u>	<u>4,546</u>	<u>71,252</u>	<u>21,950</u>	<u>3,925,397</u>
Deductions						
Claims and benefits.....	3,881,333	35,381	2,395	25,264	7,502	1,047,766
Medical insurance premiums	—	—	—	—	—	—
Refund of contributions.....	108,064	46	219	350	—	59,033
Administrative expenses.....	10,761	48	37	1,045	73	3,974
Other deductions.....	7	—	—	—	—	—
Total deductions.....	<u>4,000,165</u>	<u>35,475</u>	<u>2,651</u>	<u>26,659</u>	<u>7,575</u>	<u>1,110,773</u>
Change in net position.....	<u>7,124,055</u>	<u>65,809</u>	<u>1,895</u>	<u>44,593</u>	<u>14,375</u>	<u>2,814,624</u>
Net position — July 1, as restated.....	58,491,720	473,755	28,156	344,812	95,655	20,112,962
Net position — June 30.....	<u>\$ 65,615,775</u>	<u>\$ 539,564</u>	<u>\$ 30,051</u>	<u>\$ 389,405</u>	<u>\$ 110,030</u>	<u>\$ 22,927,586</u>

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	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
\$ 166,894	\$ 105	\$ 21,654	\$ 815,157	\$ 65,878	\$ 899	\$ 817	\$ 2,683,310
305,336	66,744	—	—	—	—	—	1,553,222
—	—	22,885	—	—	—	—	44,519
472,230	66,849	44,539	815,157	65,878	899	817	4,281,051
1,119,411	149,212	24,390	119,980	23,599	7	2,721	14,386,566
—	—	(69)	(4,803)	(67)	—	(7)	(521,852)
1,119,411	149,212	24,321	115,177	23,532	7	2,714	13,864,714
—	—	—	—	—	—	—	3,225
11,127	653	—	—	—	—	—	11,780
1,764	222	—	—	—	—	—	2,388
12,891	875	—	—	—	—	—	17,393
1,604,532	216,936	68,860	930,334	89,410	906	3,531	18,163,158
361,283	54,311	44,612	—	76,753	933	1,666	5,539,199
—	—	10,477	791,338	—	—	—	801,815
—	—	—	—	—	—	—	167,712
1,857	294	376	457	866	91	18	19,897
—	—	6,258	3,211	1	—	—	9,477
363,140	54,605	61,723	795,006	77,620	1,024	1,684	6,538,100
1,241,392	162,331	7,137	135,328	11,790	(118)	1,847	11,625,058
6,353,235	931,230	399,809	874,754	424,635	1,057	44,962	88,576,742
\$ 7,594,627	\$ 1,093,561	\$ 406,946	\$ 1,010,082	\$ 436,425	\$ 939	\$ 46,809	\$ 100,201,800

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: PLEDGED REVENUES

Primary Government**Governmental Activities**

The State has pledged future federal transportation revenues to repay \$395.275 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2014. These bonds were issued in October 2007, August 2009 and January 2012. 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 9% 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 \$463.046 million, payable through 2021. For the current fiscal year, principal and interest paid and total federal transportation revenues were \$80.551 million and \$1.311 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 \$2.327 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 \$81.735 million and \$48.47 million respectively.

Unemployment Compensation Fund

The State has pledged future unemployment tax contributions from employers to repay \$980.986 million in repayable advances from the Federal Unemployment Account. Proceeds from the advances were used to pay unemployment benefits because of an operating deficit in the State’s Unemployment Compensation Fund.

Currently, the repayable advances are payable from the unemployment tax contributions and additional federal unemployment taxes imposed on the State’s employers for calendar year 2013. Both will be used specifically for paying down the debt until it is settled. Meanwhile, the State unemployment benefits will continue to be paid from the repayable advances.

NOTES TO THE FINANCIAL STATEMENTS

Total revenue collected from unemployment tax contributions for the year was \$1.62 billion. The total amount collected from unemployment tax contributions and additional federal unemployment taxes used to pay down the principal on the repayable advances was \$1.643 billion. The State also paid \$17 million against the debt from State funds, bringing the total repayment on the principal to \$1.66 billion.

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 certificates of participation as shown in the table below (dollars in thousands):

Purpose	Revenue Source	Future Revenues Pledged		Current Year		Final Maturity Date	Payable as of 6/30/2014
		(1) Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments		
Revenue Bonds							
Housing and Dining	Housing and Dining revenues	\$ 95,109	4.27% - 74.00%	\$ 17,863	\$ 4,234	2042	\$ 60,090
Utilities	Utilities Revenues	69,851	6.00% - 13.00%	46,852	8,868	2022	69,330
Health Care Facilities	Patient Service Revenues	200,068	43.00% - 100.00%	18,096	12,011	2034	136,890
Other	Various	1,010	86.00%	235	200	2019	905
Total		<u>\$ 366,038</u>		<u>\$ 83,046</u>	<u>\$ 25,313</u>		<u>\$ 267,215</u>
Certificates of Participation							
Student Housing System	Housing Revenues	\$ 63,092	41.00% - 78.00%	\$ 4,179	\$ 2,934	2037	\$ 39,545

(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, 2014 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.....	\$ 1,498,323	\$ 274,441	\$ 958,558	\$ 104,106	\$ 2,835,428
Investments.....	2,294,703	85,944	—	972,848	3,353,495
Receivables, net.....	1,175,591	96,251	50,035	93,220	1,415,097
Due from component units.....	4,106	—	—	2,508	6,614
Due from primary government.....	121,023	—	—	71,618	192,641
Inventories.....	107,630	21,321	—	758	129,709
Prepaid items.....	73,049	4,804	—	1,993	79,846
Notes receivable, net.....	156,345	750	—	3,455,190	3,612,285
Investment in joint venture.....	66,195	—	—	—	66,195
Restricted/designated cash and cash equivalents.....	1,569,418	98,685	—	828,352	2,496,455
Restricted investments.....	3,673,453	208,374	—	1,644,135	5,525,962
Restricted due from primary government.....	527	23,784	—	—	24,311
Restricted due from component units.....	—	4,580	—	—	4,580
Capital assets-nondepreciable.....	1,287,579	340,941	—	115,144	1,743,664
Capital assets-depreciable, net.....	11,105,017	2,312,184	36	556,705	13,973,942
Total Assets.....	23,132,959	3,472,059	1,008,629	7,846,577	35,460,224
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives..	118,129	—	—	4,669	122,798
Deferred loss on refunding.....	27,613	—	—	—	27,613
Other deferred outflow	—	3,783	—	—	3,783
Total Deferred Outflow s of Resources.....	145,742	3,783	—	4,669	154,194
Liabilities					
Accounts payable and accrued liabilities.....	814,838	70,875	21,680	111,986	1,019,379
Medical claims payable.....	—	—	232,676	—	232,676
Interest payable.....	41,301	51	—	21,181	62,533
Short-term debt.....	40,331	—	—	—	40,331
Due to component units.....	—	—	—	11,194	11,194
Due to primary government.....	648	29	8	1,245	1,930
Unearned revenue.....	165,414	20,077	16,059	74,332	275,882
Advance from primary government.....	—	—	—	4,326	4,326
Deposits payable.....	10,903	—	—	3,580	14,483
Funds held for others.....	427,500	7,205	—	1,549,258	1,983,963
Hedging derivatives liability.....	118,129	—	—	4,669	122,798
Long-term liabilities:					
Due w ithin one year.....	346,774	12,450	33	272,309	631,566
Due in more than one year.....	4,941,770	112,375	352	2,956,334	8,010,831
Total Liabilities.....	6,907,608	223,062	270,808	5,010,414	12,411,892
Deferred Inflows of Resources					
Deferred state aid.....	—	—	—	95,865	95,865
Net Position					
Net investment in capital assets.....	7,758,918	2,604,015	36	538,799	10,901,768
Restricted for:					
Nonexpendable:					
Higher education.....	2,039,925	178,467	—	—	2,218,392
Expendable:					
Higher education.....	3,619,667	233,018	—	481,611	4,334,296
Health and human services.....	—	—	—	41	41
Economic development.....	—	—	—	717,889	717,889
Unrestricted.....	2,952,583	237,280	737,785	1,006,627	4,934,275
Total Net Position.....	\$ 16,371,093	\$ 3,252,780	\$ 737,821	\$ 2,744,967	\$ 23,106,661

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

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Total expenses.....	\$ 10,525,753	\$ 2,203,868	\$ 2,831,105	\$ 981,704	\$ 16,542,430
Program revenues:					
Charges for services..... [1]	6,891,268	305,363	2,934,170	546,729	10,677,530
Operating grants and contributions:					
State aid - program.....	—	—	—	263,752	263,752
Other operating grants and contributions.....	1,630,483	915,597	78,704	217,393	2,842,177
Capital grants and contributions:					
State capital aid.....	140,363	55,282	—	1	195,646
Other capital grants and contributions.....	36,003	166,057	—	2,683	204,743
Net program (expense) revenue.....	(1,827,636)	(761,569)	181,769	48,854	(2,358,582)
Non-tax general revenues:					
State aid - general.....	2,577,712	921,239	—	26,823	3,525,774
Miscellaneous.....	953	45	—	1,770	2,768
Total non-tax general revenues.....	2,578,665	921,284	—	28,593	3,528,542
Contributions to endowments.....	103,798	4,932	—	—	108,730
Change in net position.....	854,827	164,647	181,769	77,447	1,278,690
Net position — July 1, as restated	15,516,266	3,088,133	556,052	2,667,520	21,827,971
Net position — June 30.....	\$ 16,371,093	\$ 3,252,780	\$ 737,821	\$ 2,744,967	\$ 23,106,661

[1] The State Health Plan's charges for services include \$1.18 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).....	(285,138)	(81,168)	368,456	(2,150)	—

Intra-Entity Balances — Between Primary Government and Component Units

	Due From/Restricted Due From Component Units			Due From/Restricted Due From Primary Government			
	Highway Fund	Other Funds	Total	University of North Carolina System	Community Colleges	Other Component Units	Total
Due To Component Units:							
General Fund.....	\$ —	\$ —	\$ —	\$ 121,023	\$ —	\$ 71,618	\$ 192,641
Other Governmental Funds.....	—	—	—	527	23,784	—	24,311
Due To Primary Government:							
University of North Carolina System..	—	648	648	—	—	—	—
Community Colleges.....	—	29	29	—	—	—	—
State Health Plan	—	8	8	—	—	—	—
Other Component Units.....	1,224	21	1,245	—	—	—	—
Total.....	\$ 1,224	\$ 706	\$ 1,930	\$ 121,550	\$ 23,784	\$ 71,618	\$ 216,952

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; and one member whose term expires in July 2015. 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.

North Carolina Capital Facilities Finance Agency

The North Carolina Capital Facilities Finance Agency (Agency) provides the benefits of tax-exempt financing to nonprofit institutions providing elementary and secondary education, private institutions of higher education, and various other entities for special purpose projects serving a public interest (see Note 21). The Agency is governed by a seven member board comprised of two members appointed by the General Assembly; three members appointed by the Governor; and the State Treasurer and the State Auditor, both of whom serve ex officio.

Rural Economic Development Center, Inc.

The Rural Economic Development Center, Inc. (Center) is a legally separate nonprofit corporation established to build economic strength in the State's 85 rural counties, with a special focus on individuals with low to moderate incomes and communities with limited resources. The Center is governed by a board of directors of not less than 12 and not more than 30 members. Three members are appointed by the Governor, three by the Speaker of the House, and three by the President Pro Tempore of the Senate. The other members are elected by the board of directors.

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.

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, 2014, this support totaled \$64.64 million for the UNC System and \$1.22 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, 2014, 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, 2014, was \$3.1 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

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 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 (N.C. 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 N.C. 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 N.C. Pre-K program. The State has appealed this decision and the North Carolina Supreme Court, in

NOTES TO THE FINANCIAL STATEMENTS

November 2013, held that amendments to the 2011 legislation had rendered the appeal moot. The case will now be remanded to Superior Court.

Lake v. North Carolina State Health Plan — Retiree Health Insurance. 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 based on Rules of Civil Procedure 12(b) (1), (2) and (6). After a hearing, the trial court denied the motion to dismiss. The State has appealed to the North Carolina Court of Appeals.

Pashby v. Wos – Personal Care Services Program. This case is a class action lawsuit in Federal District Court involving challenges to the Personal Care Services Program (PCS) in North Carolina. The Plaintiffs have alleged violations of the ADA, Rehabilitation Act, due process, and the Medicaid Act based on a change in the eligibility criteria for a Medicaid beneficiary to receive personal care services. The Plaintiffs alleged that the eligibility criteria for PCS differed between Medicaid beneficiaries receiving PCS in their home as opposed to in an Adult Care Home and which would then force Medicaid beneficiaries into Adult Care Homes in order to receive PCS. The District Court certified the class and entered a Preliminary Injunction in December 2011 which was appealed to the Fourth Circuit Court of Appeals. The 4th Circuit entered a stay of the District Court Preliminary Injunction but in April 2013 issued an opinion upholding the Preliminary Injunction and remanded the matter. Upon remand, defendants filed a motion to dismiss which was denied and the plaintiffs filed a motion to amend their complaint and amend the class definition to expand the class to Medicaid beneficiaries affected by a subsequent change in PCS policy effective January 1, 2013. The District Court allowed both of plaintiffs' motions and defendants are in the process of answering the amended complaint. At this stage of the litigation, the likelihood of any potential liability cannot be determined as "probable" or "remote". Likewise, any potential liability to the State cannot be reasonably estimated.

State Employees Association of North Carolina (SEANC) v. State; Stone v. State – Diversion of Employer's Retirement System Contribution. On May 22, 2001, SEANC filed an action in Wake County Superior Court demanding repayment of approximately \$129 million in employer retirement contributions to the Retirement Systems. The Governor withheld, and subsequently used, the withheld funds under his constitutional authority to balance the state budget. The trial court dismissed the action on May 23, 2001, and the North Carolina Court of Appeals affirmed this dismissal on December 3, 2002. The Supreme Court, on June 13, 2003, reversed the Court of Appeals on issues related to class standing and remanded with instructions to consider procedural issues raised but not addressed by the Court of Appeals. The Court of Appeals remanded the case to the Superior Court of Wake County without opinion and without considering any remaining issues.

In June 2002, the *Stone* case was filed in Wake County Superior Court on behalf of individual state employees and retirees seeking repayment of the withheld employer contribution and a prohibition against future diversions. A class comprised of all members of the Retirement System has been certified and the case is currently proceeding through class notification and toward trial. On September 6, 2006, the trial court issued an interlocutory order in response to cross-motions for summary judgment. The court's order found the diversion of funds to be in violation of the Constitution, but did not direct any repayment of funds, reserving the question of repayment for consideration, if necessary after appeal of the constitutional issues. On August 5, 2008, the Court of Appeals affirmed the Superior Court order. Both sides gave notice of appeal and filed petitions for discretionary review with the North Carolina Supreme Court. On June 17, 2009, the Supreme Court dismissed the appeals and denied the petitions for discretionary review.

The case now returns to the Superior Court for consideration of damages. Because the General Assembly has repaid the principal amount withheld from the Retirement System, consideration will focus on lost interest and earnings, if any. A new judge will need to be appointed to hear the case, as the judge previously assigned to the case is now employed by the North Carolina Department of Transportation.

State of North Carolina v. Philip Morris, Inc., et al., 98 CVS 14377 — Master Settlement Agreement (MSA) Payments. On April 20, 2006, the State of North Carolina filed a Motion for Declaratory Order in the North Carolina Business Court against defendants Philip Morris, Inc., R. J. Reynolds Tobacco Company, and Lorillard Tobacco Company. The Motion is seeking a declaration that (1) in 2003, North Carolina continuously had a Qualifying Statute in full force and effect and "diligently enforced" its provisions throughout that year in accordance with the MSA; (2) North Carolina is not subject to a Non-Participating Manufacturers' Adjustment for 2003; and (3) defendants are obligated not to withhold or pay into a disputed payments account any payments due, or seek any offset of any payments made, on the basis that North Carolina is subject to a Non-Participating Manufacturers' Adjustment for 2003. If the State is unable to

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ultimately prevail in the diligent enforcement litigation, the State may be unable to recover a portion of this year's MSA payment. On December 4, 2006, Judge Tennille allowed the defendant's motion to compel arbitration of these issues. The Court of Appeals upheld the Order and on March 19, 2009, the State's Petition to the North Carolina Supreme Court was denied. The State participated in a national arbitration process with the tobacco companies and all other MSA states, but has entered into a settlement agreement which, unless overturned, provides a lump sum to the State in 2013 balanced by an almost equal aggregate in corresponding reductions in the next five annual payments.

During fiscal year 2013, the lump sum of \$119.54 million was released under the Tobacco Master Settlement Agreement for the benefit of the State of North Carolina, above the State's regular annual MSA payment. Of that amount, \$94.9 million was received by the State. The remaining \$24.64 million was received by the nonprofit corporation Golden LEAF, Inc. but on March 26, 2014 was transferred to the State.

Under the settlement, over years 2013-2017, approximately \$98.1 million will be credited back to the Participating Manufacturers against their annual MSA payments to the State. During the 2013 fiscal year approximately \$49.05 million was credited to the Participating Manufacturers, by the application of a credit against that year's April annual MSA payment owed to the State. The remaining \$49.05 million will be applied in equal amounts of approximately \$12.5 million as credits to the 2014-2017 MSA payments owed the State. Also for 2014 and 2015, there will be a "transition year" credit of \$4.5 million applied for sales years 2013 and 2014.

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2014, the State is unable to estimate what liabilities may result from such audits.

D. Highway Construction

The State has placed on deposit in court \$159.84 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 \$49.8 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of \$54.52 million. These costs have not been included in project-to-date costs.

E. Construction and Other Commitments

At June 30, 2014, the State had commitments of \$3.594 billion for construction of highway infrastructure. Of this amount, \$3.05 billion relates to the Highway Fund, \$8 million relates to the NC Turnpike Authority, and \$536 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$514.85 million (including \$406.72 million for the Department of Environment and Natural Resources and \$74.33 million for the Division of Mental Health within the Department of Health and Human Services).

At June 30, 2014, the University of North Carolina System (component unit) had outstanding construction commitments of \$551.97 million (including \$112.27 million for UNC Healthcare System, \$96.37 million for University of North Carolina at Charlotte, \$85.02 million for University of North Carolina at Chapel Hill, \$84.57 million for University of North Carolina at Greensboro, \$55.8 million for East Carolina University, and \$34.58 million for North Carolina State University).

At June 30, 2014, community colleges (component units) had outstanding construction commitments of \$199.83 million (including \$57.7 million for Cape Fear Community College, \$57.03 million for Wake Technical Community College, \$24.88 million for Central Piedmont Community College, and \$18.7 million for Pitt Community College).

The State Treasurer has entered into contracts with external fund managers of the Real Estate Investment, Alternative Investment, Inflation Protection Investment, and Credit Investment portfolios, where the State Treasurer agrees to commit capital to these investments. The portfolios are part of the State Treasurer's Investment Pool as described in section A of Note 3. As of June 30, 2014, the State Treasurer has \$2.36 billion in unfunded commitments in the Real Estate Investment portfolio which includes 33.72 million euro

NOTES TO THE FINANCIAL STATEMENTS

and 176.52 million pounds sterling converted to U.S. dollar equivalent. In the Alternative Investment portfolio, the State Treasurer has unfunded commitments of \$2.37 billion which include 167 million euro and 55.73 million pounds sterling converted to the U.S. dollar equivalent. At June 30, 2014, there were also unfunded commitments in the Inflation Protection Investment and Credit Investment portfolios in the amount of \$2.15 billion and \$579.17 million, respectively. In addition, the Escheat Investment Account had unfunded commitments of \$5.7 million at June 30, 2014. These consist of commitments under the private equity investment partnerships described in Section A of Note 3.

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, 2014, the UNC Investment Fund had approximately \$705.91 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 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 \$2.57 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 the next eight years. 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2014, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*,
- Statement No. 66, *Technical Corrections—2012 (an amendment of GASB Statements No. 10 and No. 62)*,
- Statement No. 67, *Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)*, and
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as expenses or revenues, certain items that were previously reported as assets and liabilities. Statement 65 also introduces changes that impact the determination of the major fund calculations and limits the use of the term “deferred” in financial statement presentations. The implementation of Statement 65 resulted in the following significant changes: 1) deferred losses on refundings are now classified as deferred outflows of resources, 2) debt issuance costs, except any portion related to prepaid insurance costs, are now recognized as expenses in the period incurred, 3) State aid to a component unit that cannot be spent until a future period (but all other eligibility requirements, if any, have been met) is now classified as a deferred outflow of resources by the State and a deferred inflow of resources by the recipient component unit, and 4) unavailable revenues of governmental funds are now classified as deferred inflows of resources.

Statement No. 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements meeting certain criteria. The new Statement applies primarily to defined benefit pension plans and builds upon the previous framework for financial reporting. Statement 67 improves financial reporting through enhanced note disclosures and new required supplementary information (RSI) schedules. For example, it requires that pension plans present information about the total pension liability, net position, net pension liability, contributions, and the annual money-weighted rates of return in the notes to the financial statements and in RSI. The Statement also details a less extensive set of note disclosure requirements for defined contribution pension plans.

Statements No. 66 and No. 70 did not result in any significant changes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustment in the "Reporting Entity Change" column is the result of a change in status of the Rural Economic Development Center from a component unit of the State to a related organization. The adjustments in the "Reclassifications" column result from the reclassification of an other governmental fund to the General Fund due to a statutory change and reclassification of deferred loss on refunding from a deduction from bonds payable to a deferred outflow of resources as required by GASB Statement No. 65, *Items Previously Reports as Assets and Liabilities* (see Note 22). The amounts in the "Other Adjustments" column are primarily due to the correction of errors related to prior periods.

	July 1, 2013 Fund Equity as Previously Reported	Reporting Entity Change	Reclassifications	Other Adjustments	July 1, 2013 Fund Equity as Restated
Primary Government					
Major Governmental Funds:					
General Fund	\$ 1,279,935	\$ —	\$ 26,011	\$ (8,083)	\$ 1,297,863
Highway Fund	332,460	—	—	11,526	343,986
Highway Trust Fund	620,753	—	—	(11,526)	609,227
Other Governmental Funds:					
Special Revenue Funds	879,651	—	(26,011)	59,835	913,475
Capital Projects Funds	565,240	—	—	75	565,315
Permanent Funds	111,432	—	—	—	111,432
Total Governmental Funds	<u>3,789,471</u>	<u>—</u>	<u>—</u>	<u>51,827</u>	<u>3,841,298</u>
Internal Service Funds	217,818	—	—	—	217,818
Government-wide adjustments:					
Equity interest in component unit	163,748	—	—	—	163,748
Capital assets	42,698,455	—	—	(38,443)	42,660,012
Deferred loss on refunding	—	—	133,808	—	133,808
Unavailable revenue	234,792	—	—	(1,885)	232,907
Long-term liabilities	(8,844,724)	—	(133,808)	9	(8,978,523)
Accrued interest payable	(70,902)	—	—	(290)	(71,192)
Pension assets	4,831	—	—	—	4,831
Total Government-wide adjustments	<u>34,186,200</u>	<u>—</u>	<u>—</u>	<u>(40,609)</u>	<u>34,145,591</u>
Total Governmental Activities	<u>38,193,489</u>	<u>—</u>	<u>—</u>	<u>11,218</u>	<u>38,204,707</u>
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund	(1,563,981)	—	—	(1)	(1,563,982)
EPA Revolving Loan Fund	1,304,726	—	—	—	1,304,726
N.C. Turnpike Authority	286,423	—	—	(17,998)	268,425
Other enterprise funds	151,550	—	—	13	151,563
Total Business-type Activities - Enterprise Funds	<u>178,718</u>	<u>—</u>	<u>—</u>	<u>(17,986)</u>	<u>160,732</u>
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	88,513,597	—	—	63,145	88,576,742
Investment Trust Funds	1,008,451	—	—	(218)	1,008,233
Private Purpose Trust Funds	1,040,075	—	—	—	1,040,075
Total Fiduciary Funds	<u>90,562,123</u>	<u>—</u>	<u>—</u>	<u>62,927</u>	<u>90,625,050</u>
Total Primary Government	<u>\$128,934,330</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 56,159</u>	<u>\$128,990,489</u>
Component Units					
University of North Carolina System	\$ 15,516,681	\$ —	\$ —	\$ (415)	\$ 15,516,266
Community Colleges	3,083,721	—	—	4,412	3,088,133
State Health Plan	556,052	—	—	—	556,052
Other component units	2,897,427	(149,745)	—	(80,162)	2,667,520
Total Component Units	<u>\$ 22,053,881</u>	<u>\$ (149,745)</u>	<u>\$ —</u>	<u>\$ (76,165)</u>	<u>\$ 21,827,971</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24: SUBSEQUENT EVENTS

Primary Government*Limited Obligation Refunding Bonds*

On November 19, 2014, the State of North Carolina issued \$299.02 million of tax-exempt Limited Obligation Refunding Bonds, Series 2014C. The bonds carry an all-in true interest cost of 2.55% and have an average life of 8.93 years. The bonds are dated November 19, 2014 and bear interest from that date. Interest on the bonds will be payable semiannually on May 1 and November 1, commencing May 1, 2015. The bonds will mature from May 1, 2015 through May 1, 2017 and May 1, 2019 through May 1, 2028 and were issued at coupon rates of 2%, 3% and 5%. The bonds maturing on or after May 1, 2025 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 North Carolina Infrastructure Finance Corporation: Capital Improvement Certificates of Participation, Series 2005A, Series 2006A and 2007A; Repairs and Renovations Certificates of Participation, Series 2006A; and through the refunding of certain maturities of the State of North Carolina Capital Improvement Limited Obligation Bonds, Series 2008A and 2009A. The refunding bonds were also issued to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds refunded totaled \$309.2 million with an average interest rate of 4.92%. 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 2014C refunding reduced total debt service payments by approximately \$21.08 million and resulted in an economic gain of approximately \$17.78 million.

Federal Repayable Advances

For the period July 1, 2014 through November 21, 2014, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of \$89.53 million. Proceeds from the advances were used to pay unemployment benefits. Interest began accruing January 1, 2014 at an interest rate of 2.39%. Since July 1, 2014 total revenue collected from unemployment tax contributions and other State sources (per Session Law 2013-2) of \$605.38 million was used to pay down the principal on the advances. At November 21, 2014 the outstanding balance of the FUA advances was \$465.14 million.

Component Units*University of North Carolina System – North Carolina State University – Sale of Hofmann Forest*

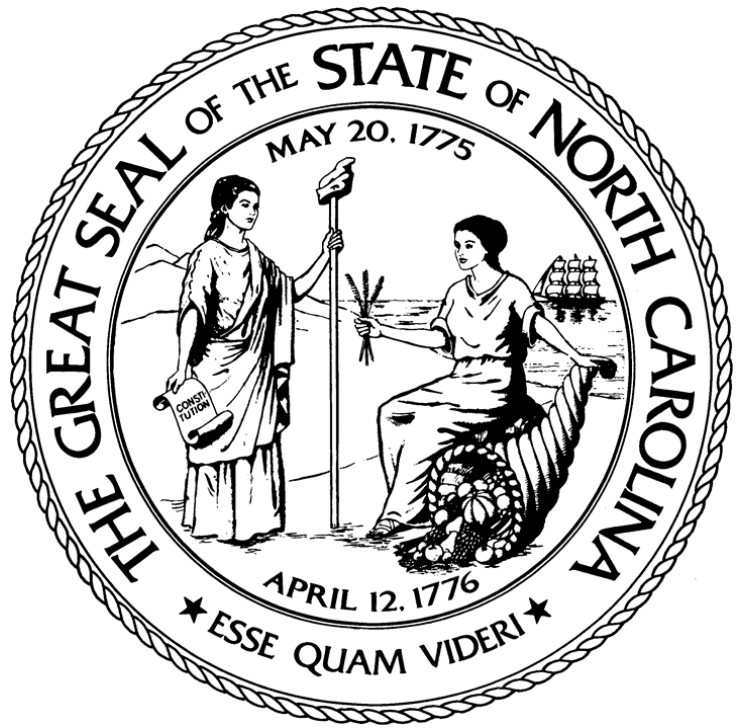
On September 2, 2014, the Board of Trustees of the Endowment Fund entered into a modified agreement for the sale of Hofmann Forest. The agreement provides for the North Carolina State Endowment Fund to receive \$140 million from the sale, with the proceeds to be held for the benefit of the College of Natural Resources. The North Carolina State University believes the sale is likely to occur in fiscal year 2015.

University of North Carolina System – North Carolina State University – Grant

On November 19, 2014, North Carolina State University was awarded a \$69.6 million grant from the U.S. Department of Energy Office of Energy Efficiency and Renewable Energy. The grant will be received over five years and requires matching funding of \$76.1 million.

University of North Carolina System – University of North Carolina at Chapel Hill – Taxable General Revenue Refunding Bonds

The University of North Carolina at Chapel Hill issued \$265.6 million in Series 2014 taxable General Revenue Refunding Bonds. The bonds are dated October 9, 2014 and bear interest from that date with an average interest rate of 3.82%. Interest on the bonds will be payable semiannually on each December 1 and June 1, commencing December 1, 2014. The bonds were issued to provide funds for the advance refunding of \$250 million in par value of the General Revenue Bonds, Series 2005A with an average interest rate of 4.99%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability was removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$26.93 million over the next 21 years and resulted in an estimated net present value economic gain of \$21.9 million.



REQUIRED
SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
Teachers' and State Employees'	
Total pension liability	
Service Cost	\$ 1,556,027
Interest	4,648,995
Changes of benefit terms	355,224
Differences between expected and actual experience	(345,392)
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(3,989,397)</u>
Net change in total pension liability	<u>2,225,457</u>
Total pension liability - beginning	<u>64,562,739</u>
Total pension liability - ending (a)	<u><u>\$ 66,788,196</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 1,177,341
Contributions-member	825,548
Net investment income	9,121,005
Benefit payments, including refunds of member contributions	(3,989,397)
Administrative expense	(10,762)
Other	<u>320</u>
Net change in plan fiduciary net position	<u>7,124,055</u>
Plan fiduciary net position - beginning	<u>58,491,720</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 65,615,775</u></u>
TSERS's net pension liability - ending (a) - (b)	<u><u>\$ 1,172,421</u></u>

Local Governmental Employees'

Total pension liability	
Service Cost	\$ 654,735
Interest	1,555,958
Changes of benefit terms	(7,790)
Differences between expected and actual experience	(80,590)
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(1,106,799)</u>
Net change in total pension liability	<u>1,015,514</u>
Total pension liability - beginning	<u>21,360,154</u>
Total pension liability - ending (a)	<u><u>\$ 22,375,668</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 413,175
Contributions-member	346,961
Net investment income	3,161,964
Benefit payments, including refunds of member contributions	(1,106,799)
Administrative expense	(3,974)
Other	<u>3,297</u>
Net change in plan fiduciary net position	<u>2,814,624</u>
Plan fiduciary net position - beginning	<u>20,112,962</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 22,927,586</u></u>
LGERS's net pension asset - ending (a) - (b)	<u><u>\$ (551,918)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
Firefighters' and Rescue Squad Workers'	
Total pension liability	
Service Cost	\$ 5,710
Interest	29,394
Changes of benefit terms	8,770
Differences between expected and actual experience	2,714
Changes of assumptions	(16,688)
Benefit payments, including refunds of member contributions	<u>(25,614)</u>
Net change in total pension liability	<u>4,286</u>
Total pension liability - beginning	412,537
Total pension liability - ending (a)	<u><u>\$ 416,823</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 14,627
Contributions-member	2,781
Net investment income	53,842
Benefit payments, including refunds of member contributions	(25,614)
Administrative expense	(1,045)
Other	<u>2</u>
Net change in plan fiduciary net position	<u>44,593</u>
Plan fiduciary net position - beginning	344,812
Plan fiduciary net position - ending (b)	<u><u>\$ 389,405</u></u>
FRSWPF's net pension liability - ending (a) - (b)	<u><u>\$ 27,418</u></u>
Registers of Deeds'	
Total pension liability	
Service Cost	\$ 563
Interest	1,342
Changes of benefit terms	-
Differences between expected and actual experience	302
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(1,666)</u>
Net change in total pension liability	<u>541</u>
Total pension liability - beginning	23,602
Total pension liability - ending (a)	<u><u>\$ 24,143</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 817
Contributions-member	-
Net investment income	2,714
Benefit payments, including refunds of member contributions	(1,666)
Administrative expense	(18)
Other	<u>-</u>
Net change in plan fiduciary net position	<u>1,847</u>
Plan fiduciary net position - beginning	44,962
Plan fiduciary net position - ending (b)	<u><u>\$ 46,809</u></u>
RODSPF's net pension asset - ending (a) - (b)	<u><u>\$ (22,666)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
Consolidated	
Judicial	
Total pension liability	
Service Cost	\$ 16,637
Interest	39,405
Changes of benefit terms	3,031
Differences between expected and actual experience	(2,484)
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(35,428)
Net change in total pension liability	<u>21,161</u>
Total pension liability - beginning	544,600
Total pension liability - ending (a)	<u><u>\$ 565,761</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 21,390
Contributions-member	5,598
Net investment income	74,294
Benefit payments, including refunds of member contributions	(35,428)
Administrative expense	(48)
Other	3
Net change in plan fiduciary net position	<u>65,809</u>
Plan fiduciary net position - beginning	473,755
Plan fiduciary net position - ending (b)	<u><u>\$ 539,564</u></u>
CJRS's net pension liability - ending (a) - (b)	<u><u>\$ 26,197</u></u>
Legislative	
Total pension liability	
Service Cost	\$ 747
Interest	1,678
Changes of benefit terms	146
Differences between expected and actual experience	762
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(2,614)
Net change in total pension liability	<u>719</u>
Total pension liability - beginning	23,699
Total pension liability - ending (a)	<u><u>\$ 24,418</u></u>
Plan fiduciary net position	
Contributions-employer	\$ -
Contributions-member	253
Net investment income	4,293
Benefit payments, including refunds of member contributions	(2,614)
Administrative expense	(37)
Other	-
Net change in plan fiduciary net position	<u>1,895</u>
Plan fiduciary net position - beginning	28,156
Plan fiduciary net position - ending (b)	<u><u>\$ 30,051</u></u>
LRS's net pension asset - ending (a) - (b)	<u><u>\$ (5,633)</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

(Dollars in Thousands)

	<u>2014</u>
North Carolina National Guard	
Total pension liability	
Service Cost	\$ 512
Interest	9,330
Changes of benefit terms	5,752
Differences between expected and actual experience	192
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(7,502)</u>
Net change in total pension liability	8,284
Total pension liability - beginning	<u>131,922</u>
Total pension liability - ending (a)	<u>\$ 140,206</u>
Plan fiduciary net position	
Contributions-employer	\$ 7,007
Contributions-member	-
Net investment income	14,942
Benefit payments, including refunds of member contributions	(7,502)
Administrative expense	(73)
Other	<u>1</u>
Net change in plan fiduciary net position	14,375
Plan fiduciary net position - beginning	<u>95,655</u>
Plan fiduciary net position - ending (b)	<u>\$ 110,030</u>
NGPF's net pension liability - ending (a) - (b)	<u>\$ 30,176</u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NET PENSION LIABILITY
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Two Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 66,788,196	\$ 64,562,739
Plan fiduciary net position	<u>(65,615,775)</u>	<u>(58,491,720)</u>
Net pension liability	<u>\$ 1,172,421</u>	<u>\$ 6,071,019</u>
Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%
Covered-employee payroll	\$ 13,548,227	\$ 13,451,164
Net pension liability as a percentage of covered-employee payroll	8.65%	45.13%

**Local Governmental
Employees'**

Total pension liability	\$ 22,375,668	\$ 21,360,154
Plan fiduciary net position	<u>(22,927,586)</u>	<u>(20,112,962)</u>
Net pension liability (asset)	<u>\$ (551,918)</u>	<u>\$ 1,247,192</u>
Plan fiduciary net position as a percentage of the total pension liability	102.47%	94.16%
Covered-employee payroll	\$ 5,553,383	\$ 5,421,364
Net pension liability (asset) as a percentage of covered-employee payroll	(9.94%)	23.01%

**Firefighters' and Rescue
Squad Workers'**

Total pension liability	\$ 416,823	\$ 412,537
Plan fiduciary net position	<u>(389,405)</u>	<u>(344,812)</u>
Net pension liability	<u>\$ 27,418</u>	<u>\$ 67,725</u>
Plan fiduciary net position as a percentage of the total pension liability	93.42%	83.58%
Covered-employee payroll	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A

Registers of Deeds'

Total pension liability	\$ 24,143	\$ 23,602
Plan fiduciary net position	<u>(46,809)</u>	<u>(44,962)</u>
Net pension asset	<u>\$ (22,666)</u>	<u>\$ (21,360)</u>
Plan fiduciary net position as a percentage of the total pension liability	193.88%	190.50%
Covered-employee payroll	N/A	N/A
Net pension asset as a percentage of covered-employee payroll	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NET PENSION LIABILITY
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Two Fiscal Years

(Dollars in Thousands)

Consolidated Judicial	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 565,761	\$ 544,600
Plan fiduciary net position	<u>(539,564)</u>	<u>(473,755)</u>
Net pension liability	\$ 26,197	\$ 70,845
Plan fiduciary net position as a percentage of the total pension liability	95.37%	86.99%
Covered-employee payroll	\$ 76,367	\$ 71,533
Net pension liability as a percentage of covered-employee payroll	34.30%	99.04%

Legislative

Total pension liability	\$ 24,418	\$ 23,699
Plan fiduciary net position	<u>(30,051)</u>	<u>(28,156)</u>
Net pension asset	\$ (5,633)	\$ (4,457)
Plan fiduciary net position as a percentage of the total pension liability	123.07%	118.81%
Covered-employee payroll	\$ 3,608	\$ 3,600
Net pension asset as a percentage of covered-employee payroll	(156.13)%	(123.81)%

**North Carolina
National Guard**

Total pension liability	\$ 140,206	\$ 131,922
Plan fiduciary net position	<u>(110,030)</u>	<u>(95,655)</u>
Net pension liability	<u>\$ 30,176</u>	<u>\$ 36,267</u>
Plan fiduciary net position as a percentage of the total pension liability	78.48%	72.51%
Covered-employee payroll	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 1,177,341	\$ 1,078,783	\$ 1,015,762	\$ 926,429	\$ 492,779
Contractually required contribution	1,177,341	1,120,482	1,015,762	680,670	492,779
Contributions in relation to the actuarially determined contribution	1,177,341	1,120,482	1,015,762	680,670	492,779
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (41,699)</u>	<u>\$ -</u>	<u>\$ 245,759</u>	<u>\$ -</u>
Covered Payroll	\$ 13,548,227	\$ 13,451,164	\$ 13,652,715	\$ 13,806,691	\$ 13,803,324
Contributions as a percentage of covered-employee payroll	8.69%	8.33%	7.44%	4.93%	3.57%
Local Governmental Employees'					
Actuarially determined contribution	\$ 397,462	\$ 370,152	\$ 376,340	\$ 342,910	\$ 230,121
Contractually required contribution	413,175	383,889	389,399	361,998	273,337
Contributions in relation to the actuarially determined contribution	413,175	383,889	389,399	361,998	273,337
Contribution excess	<u>\$ (15,713)</u>	<u>\$ (13,737)</u>	<u>\$ (13,059)</u>	<u>\$ (19,088)</u>	<u>\$ (43,216)</u>
Covered Payroll	\$ 5,553,383	\$ 5,421,364	\$ 5,402,147	\$ 5,329,651	\$ 5,320,927
Contributions as a percentage of covered-employee payroll	7.44%	7.08%	7.21%	6.79%	5.14%
Firefighters' and Rescue Squad Workers'					
Actuarially determined contribution	\$ 14,620	\$ 14,074	\$ 14,389	\$ 12,243	\$ 10,074
Contractually required contribution	14,627	15,447	14,398	10,110	10,080
Contributions in relation to the actuarially determined contribution	14,627	15,447	14,398	10,110	10,080
Contribution deficiency (excess)	<u>\$ (7)</u>	<u>\$ (1,373)</u>	<u>\$ (9)</u>	<u>\$ 2,133</u>	<u>\$ (6)</u>
Covered 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	937	843	772	736
Contributions in relation to the actuarially determined contribution	817	937	843	772	736
Contribution excess	<u>\$ (817)</u>	<u>\$ (937)</u>	<u>\$ (843)</u>	<u>\$ (772)</u>	<u>\$ (736)</u>
Covered 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

Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 492,689	\$ 429,064	\$ 341,476	\$ 315,225	\$ 255,137
492,689	468,669	371,476	315,225	255,137
492,689	468,669	371,476	315,225	255,137
<u>\$ -</u>	<u>\$ (39,605)</u>	<u>\$ (30,000)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 14,663,363	\$ 13,976,026	\$ 14,592,991	\$ 13,471,154	\$ 11,757,465
3.36%	3.35%	2.55%	2.34%	2.17%

\$ 257,982	\$ 241,533	\$ 225,950	\$ 209,453	\$ 206,834
271,363	256,612	241,094	229,399	213,873
271,363	256,612	241,094	229,399	213,873
<u>\$ (13,381)</u>	<u>\$ (15,079)</u>	<u>\$ (15,144)</u>	<u>\$ (19,946)</u>	<u>\$ (7,039)</u>
\$ 5,284,862	\$ 4,948,042	\$ 4,693,423	\$ 4,484,358	\$ 4,247,359
5.13%	5.19%	5.14%	5.12%	5.04%

\$ 9,757	\$ 8,734	\$ 8,440	\$ 7,926	\$ 7,521
9,762	8,734	8,440	7,926	7,521
9,762	8,734	8,440	7,926	7,521
<u>\$ (5)</u>	<u>\$ -</u>	<u>\$ -</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

\$ -	\$ -	\$ -	\$ -	\$ 29
754	926	3,150	3,219	3,019
754	926	3,150	3,219	3,019
<u>\$ (754)</u>	<u>\$ (926)</u>	<u>\$ (3,150)</u>	<u>\$ (3,219)</u>	<u>\$ (2,990)</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 CONTRIBUTIONS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

Consolidated Judicial	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 21,390	\$ 18,992	\$ 18,956	\$ 13,322	\$ 10,740
Contractually required contribution	21,390	18,992	18,956	10,457	10,740
Contributions in relation to the actuarially determined contribution	21,390	18,992	18,956	10,457	10,740
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,865</u>	<u>\$ -</u>
Covered Payroll	\$ 76,367	\$ 71,533	\$ 75,673	\$ 69,206	\$ 71,079
Contributions as a percentage of covered-employee payroll	28.01%	26.55%	25.05%	15.11%	15.11%
Legislative					
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contractually required contribution	-	-	-	-	-
Contributions in relation to the actuarially determined contribution	-	-	-	-	-
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 3,608	\$ 3,600	\$ 3,314	\$ 4,029	\$ 3,657
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%
North Carolina National Guard					
Actuarially determined contribution	\$ 5,349	\$ 5,667	\$ 6,075	\$ 5,719	\$ 5,682
Contractually required contribution	7,007	7,007	7,007	7,007	7,008
Contributions in relation to the actuarially determined contribution	7,007	7,007	7,007	7,007	7,008
Contribution deficiency (excess)	<u>\$ (1,658)</u>	<u>\$ (1,340)</u>	<u>\$ (932)</u>	<u>\$ (1,288)</u>	<u>\$ (1,326)</u>
Covered 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

Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 10,017	\$ 8,214	\$ 7,300	\$ 6,695	\$ 6,907
10,603	40,844	8,090	6,989	6,907
10,603	10,844	8,090	6,989	6,907
<u>\$ (586)</u>	<u>\$ (2,630)</u>	<u>\$ (790)</u>	<u>\$ (294)</u>	<u>\$ -</u>
\$ 80,265	\$ 64,678	\$ 64,257	\$ 55,512	\$ 54,861
13.21%	16.77%	12.59%	12.59%	12.59%

\$ -	\$ -	\$ -	\$ -	\$ -
-	209	-	-	-
-	209	-	-	-
<u>\$ -</u>	<u>\$ (209)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,686	\$ 3,614	\$ 3,714	\$ 3,657	\$ 3,671
0.00%	5.78%	0.00%	0.00%	0.00%

\$ 6,248	\$ 6,232	\$ 7,324	\$ 5,944	\$ 1,412
5,892	7,007	7,007	6,042	1,564
5,892	7,007	7,007	6,042	1,564
<u>\$ 356</u>	<u>\$ (775)</u>	<u>\$ 317</u>	<u>\$ (98)</u>	<u>\$ (152)</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 TRUST FUNDS**

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
ALL DEFINED BENEFIT PENSION TRUST FUNDS

June 30, 2014

(Dollars in Thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)	NOTE 1		(c)	
Teachers' and State Employees'	12-31-13	\$ 62,363,807	\$ 65,805,555	\$ 3,441,748	94.8%	\$ 12,834,121	26.8%
	12-31-12	59,911,833	63,630,278	3,718,445	94.2%	12,774,187	29.1%
	12-31-11	58,125,011	61,846,697	3,721,686	94.0%	12,801,046	29.1%
Local Governmental Employees'	12-31-13	\$ 21,498,147	\$ 21,537,813	\$ 39,666	99.8%	\$ 5,241,858	0.8%
	12-31-12	20,295,239	20,338,785	43,546	99.8%	5,123,481	0.9%
	12-31-11	19,326,359	19,373,800	47,441	99.8%	5,106,766	0.9%
Firefighters' and Rescue Squad Workers'	12-31-13	\$ 364,836	\$ 413,054	\$ 48,218	88.3%	N/A	N/A
	6-30-12	338,885	403,817	64,932	83.9%	N/A	N/A
	6-30-11	327,984	391,837	63,853	83.7%	N/A	N/A
Registers of Deeds'	12-31-13	\$ 46,406	\$ 24,064	\$ (22,342)	192.8%	\$ 5,960	(374.8)%
	12-31-12	44,996	23,517	(21,479)	191.3%	5,613	(382.7)%
	12-31-11	42,623	22,194	(20,429)	192.1%	5,875	(347.7)%
Consolidated Judicial	12-31-13	\$ 506,788	\$ 549,345	\$ 42,557	92.3%	\$ 68,457	62.2%
	12-31-12	481,286	527,585	46,299	91.2%	68,237	67.9%
	12-31-11	460,647	512,643	51,996	89.9%	67,815	76.7%
Legislative	12-31-13	\$ 29,318	\$ 24,557	\$ (4,761)	119.4%	\$ 3,579	(133.0)%
	12-31-12	29,416	23,852	(5,564)	123.3%	3,510	(158.5)%
	12-31-11	29,468	23,757	(5,711)	124.0%	3,679	(155.2)%
North Carolina National Guard	12-31-13	\$ 103,300	\$ 140,022	\$ 36,722	73.8%	N/A	N/A
	12-31-12	96,597	131,722	35,125	73.3%	N/A	N/A
	12-31-11	91,108	129,500	38,392	70.4%	N/A	N/A

NOTE 1 - A negative UAAL denotes excess actuarial assets

N/A - Not applicable

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 142.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2014

Changes of benefit terms.

	<u>Cost of Living Increase</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>2005</u>
<u>Cost-Sharing, Multiple-Employer</u>									
Teachers' and State Employees'	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
Local Governmental Employees'	N/A	N/A	N/A	0.10%	2.15%	2.20%	2.80%	2.50%	N/A
Firefighters' and Rescue Squad Workers' (1)	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
<u>Single-Employer</u>									
Consolidated Judicial	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
Legislative	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
North Carolina National Guard (2)	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.

N/A - not applicable

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012. 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 National Guard Pension Fund.

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.

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

June 30, 2014

(Dollars in Thousands)

	<i>Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
			(1)			(2)	
Retiree Health Benefit	12-31-13	\$ 890,756	\$ 26,420,168	\$ 25,529,412	3.4%	\$ 15,080,627	169.3%
	12-31-12	765,828	23,883,107	23,117,279	3.2%	14,957,179	154.6%
	12-31-11	729,095	30,339,346	29,610,251	2.4%	14,851,954	199.4%
Disability Income	12-31-13	\$ 442,422	\$ 522,940	\$ 80,518	84.6%	\$ 14,294,017	0.6%
	12-31-12	432,667	503,192	70,525	86.0%	14,163,204	0.5%
	12-31-11	406,068	511,417	105,349	79.4%	14,139,467	0.8%

(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. The Segal Company reported the adjusted, annualized payroll for postemployment health benefits.

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

For the Fiscal Years Ended June 30, 2012-2014

(Dollars in Thousands)

	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Retiree Health Benefit	2014	\$ 2,223,900	36%
	2013	2,021,026	42%
	2012	2,480,160	34%
Disability Income	2014	\$ 65,730	100%
	2013	64,065	100%
	2012	67,377	113%

**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, 2014

(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.....	\$ 10,996,700	\$ 10,996,700	\$ 10,272,359	\$ (724,341)
Corporate income.....	1,249,200	1,249,200	1,356,856	107,656
Sales and use.....	5,444,164	5,444,164	5,566,518	122,354
Franchise.....	660,200	660,200	697,012	36,812
Insurance.....	506,039	506,039	440,922	(65,117)
Beverage.....	309,600	309,600	305,995	(3,605)
Inheritance.....	—	—	19,276	19,276
Tobacco products.....	251,800	251,800	255,532	3,732
Other.....	153,593	153,593	170,742	17,149
Non-Tax:				
Fees, licenses and fines.....	250,200	250,200	237,095	(13,105)
Investment income.....	13,700	13,700	17,251	3,551
Disproportionate share receipts.....	110,000	110,000	110,000	—
Other.....	278,047	278,047	325,132	47,085
Transfers in.....	218,100	218,100	218,135	35
Tobacco settlement.....	162,139	162,139	164,576	2,437
Departmental:				
Federal funds.....	13,880,419	13,568,209	12,447,921	(1,120,288)
Local funds.....	747,223	796,896	749,630	(47,266)
Inter-agency grants and allocations.....	24,885	87,779	20,613	(67,166)
Intra-governmental transactions.....	3,046,685	3,454,047	3,416,881	(37,166)
Sales and services.....	132,143	153,255	154,615	1,360
Rental and lease of property.....	14,734	15,029	14,151	(878)
Fees, licenses and fines.....	1,137,182	679,995	676,273	(3,722)
Contributions, gifts and grants.....	357,707	1,107,989	1,054,503	(53,486)
Federal recovery funds.....	293,627	171,170	139,759	(31,411)
Miscellaneous.....	373,747	407,713	153,102	(254,611)
Total Revenues.....	40,611,834	41,045,564	38,984,849	(2,060,715)
Expenditures				
Current:				
General government.....	1,059,184	936,784	858,067	78,717
Primary and secondary education.....	11,579,909	11,034,615	10,258,238	776,377
Higher education.....	4,540,375	4,676,312	4,553,536	122,776
Health and human services.....	18,803,558	19,603,788	18,739,255	864,533
Environment and natural resources.....	383,326	442,469	397,368	45,101
Economic development.....	551,649	788,381	657,885	130,496
Public safety, corrections, and regulation.....	2,886,269	2,941,279	2,764,840	176,439
Agriculture.....	183,967	200,762	182,239	18,523
Capital outlay.....	27,939	27,939	27,939	—
Debt service.....	766,647	777,206	726,528	50,678
Total Expenditures.....	40,782,823	41,429,535	39,165,895	2,263,640
Excess (deficiency) of revenues over expenditures.....	(170,989)	(383,971)	(181,046)	202,925
Total Fund Balance at July 1, as restated.....	1,986,363	1,986,363	1,986,363	—
Total Fund Balance at June 30.....	\$ 1,815,374	\$ 1,602,392	\$ 1,805,317	\$ 202,925
Fund balance reserved:				
Statutory.....			\$ 696,296	
Non-reverting purposes.....			839,618	
Fund balance unreserved.....			269,403	
Total Fund Balance at June 30.....			\$ 1,805,317	

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 writing a check to itself and recording a budgetary expenditure. The check is deposited in the next fiscal year as a budgetary receipt.

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 carry forward 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 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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2014 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, 2014	\$ 1,805,317
<u>Reconciling Adjustments</u>	
Basis Differences	
Accrued revenues	
Taxes receivable.....	1,785,349
Less tax refunds payable.....	(1,181,509)
Accounts receivable and other receivables.....	256,689
Federal funds, net.....	729,139
Unearned revenue.....	(318,213)
Investment market value	198
Total accrued revenues.....	<u>1,271,653</u>
Accrued expenditures	
Medical claims payable.....	(852,380)
Accounts payable, accrued liabilities, and other payables.....	(997,547)
Total accrued expenditures.....	<u>(1,849,927)</u>
Other Adjustments	
Notes receivable.....	39,498
Inventories.....	73,958
Timing Differences	
Authorized carryforward for specific encumbrances	167,032
Forward funded state aid.....	<u>36,005</u>
Fund balance (GAAP basis) June 30, 2014.....	<u>\$ 1,543,536</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 appropriation budget.

At the beginning of fiscal year 2013-14, the balance of the Savings Reserve Account was \$651.35 million. In accordance with Session Law 2014-100, the State Controller was not authorized by the General Assembly to make a transfer from unreserved fund balance to the Savings Reserve. However, \$245 thousand was transferred per Session Law 2013-186. At the end of the fiscal year 2013-14, the balance of this reserve was \$651.60 million.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 2014-100, the State Controller was not authorized by the General Assembly to make a transfer from unreserved fund balance to the Repairs and Renovations Reserve. At the end of the fiscal year 2013-14, the balance of this reserve was \$11.59 million.

Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7). During fiscal year 2004-2005, \$248.17 million was transferred to the Disaster Relief Reserve. This \$248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve Account transfer, and transfers of funds from the unreserved credit balance. At the end of the fiscal year 2013-14, the balance of this reserve was \$14.99 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 was appropriated \$51.82 million for fiscal year 2013-14. At the end of the fiscal year 2013-14, the balance of this reserve was \$4.86 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 \$9 million for fiscal year 2013-14 by Session Law 2013-360. At the end of the fiscal year 2013-14, the balance of this reserve was \$13.26 million.



*COMBINING FUND
STATEMENTS
AND
SCHEDULES*

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*NONMAJOR
GOVERNMENTAL
FUNDS*

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2014

Exhibit C-1

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 746,223	\$ —	\$ 750	\$ 746,973
Investments	228,946	—	—	228,946
Securities lending collateral	81,684	5,130	14,949	101,763
Receivables, net:				
Taxes receivable.....	2,183	—	—	2,183
Accounts receivable.....	21,833	319	7	22,159
Intergovernmental receivable.....	823	48	—	871
Interest receivable.....	189	109	3	301
Due from other funds	7,063	—	—	7,063
Inventories.....	26,481	—	—	26,481
Notes receivable, net.....	1,283	39,753	—	41,036
Securities held in trust.....	43,083	—	—	43,083
Restricted/designated cash and cash equivalents.....	—	275,133	9,323	284,456
Restricted investments.....	1,930	204,729	109,382	316,041
Total Assets.....	<u>1,161,721</u>	<u>525,221</u>	<u>134,414</u>	<u>1,821,356</u>
Deferred Outflows of Resources				
Forward funded state aid.....	59,860	—	—	59,860
Total Assets and Deferred Outflows.....	<u>\$ 1,221,581</u>	<u>\$ 525,221</u>	<u>\$ 134,414</u>	<u>\$ 1,881,216</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 20,544	\$ 22,703	\$ —	\$ 43,247
Accrued payroll.....	139	—	—	139
Intergovernmental payable.....	5,273	66	—	5,339
Claims payable.....	52,500	—	—	52,500
Obligations under securities lending.....	81,079	5,147	15,180	101,406
Due to other funds	543	107	—	650
Due to component units	—	24,311	—	24,311
Unearned revenue.....	453	1,685	—	2,138
Deposits payable.....	4	—	—	4
Funds held for others.....	43,179	—	—	43,179
Total Liabilities.....	<u>203,714</u>	<u>54,019</u>	<u>15,180</u>	<u>272,913</u>
Deferred Inflows of Resources				
Unavailable revenue.....	2,531	—	—	2,531
Fund Balances				
Nonspendable.....	26,481	—	102,011	128,492
Restricted.....	550,403	196,830	16,577	763,810
Committed.....	438,452	274,372	646	713,470
Total Fund Balances.....	<u>1,015,336</u>	<u>471,202</u>	<u>119,234</u>	<u>1,605,772</u>
Total Liabilities, Deferred Inflows and Fund Balances.....	<u>\$ 1,221,581</u>	<u>\$ 525,221</u>	<u>\$ 134,414</u>	<u>\$ 1,881,216</u>

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

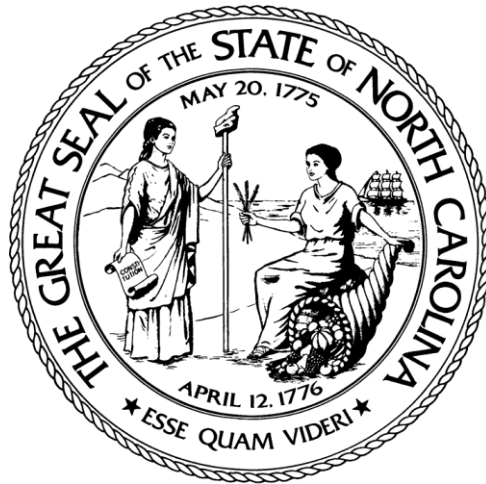
For the Fiscal Year Ended June 30, 2014

Exhibit C-2

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales and use tax.....	\$ 7,786	\$ —	\$ —	\$ 7,786
Gasoline tax.....	25,549	—	—	25,549
Other taxes.....	104,295	—	—	104,295
Federal funds.....	74,131	2,640	—	76,771
Local funds.....	5,774	288	—	6,062
Investment earnings.....	16,900	473	6,427	23,800
Interest earnings on loans.....	11	626	—	637
Sales and services.....	149,393	730	—	150,123
Rental and lease of property.....	3,439	2	—	3,441
Fees, licenses, and fines.....	173,763	651	3,915	178,329
Contributions, gifts, and grants.....	30,777	21,258	16	52,051
Funds escheated.....	106,760	—	—	106,760
Federal recovery funds.....	3,613	517	—	4,130
Miscellaneous.....	12,755	3,700	—	16,455
Total revenues.....	<u>714,946</u>	<u>30,885</u>	<u>10,358</u>	<u>756,189</u>
Expenditures				
Current:				
General government.....	39,823	189	—	40,012
Higher education.....	71,022	86,870	28	157,920
Health and human services.....	72,832	—	—	72,832
Economic development.....	13,645	3,933	—	17,578
Environment and natural resources.....	153,265	10,993	139	164,397
Public safety, corrections, and regulation.....	253,971	1	—	253,972
Transportation.....	2	—	—	2
Agriculture.....	16,037	—	—	16,037
Capital outlay.....	—	127,634	—	127,634
Debt service:				
Principal retirement.....	4,223	—	—	4,223
Interest and fees.....	16	115	—	131
Total expenditures.....	<u>624,836</u>	<u>229,735</u>	<u>167</u>	<u>854,738</u>
Excess revenues over (under) expenditures.....	<u>90,110</u>	<u>(198,850)</u>	<u>10,191</u>	<u>(98,549)</u>
Other Financing Sources (Uses)				
Sale of capital assets.....	76	343	—	419
Insurance recoveries.....	30	54	—	84
Transfers in.....	147,032	126,155	—	273,187
Transfers out.....	(135,387)	(21,815)	(2,389)	(159,591)
Total other financing sources (uses).....	<u>11,751</u>	<u>104,737</u>	<u>(2,389)</u>	<u>114,099</u>
Net change in fund balances.....	101,861	(94,113)	7,802	15,550
Fund balances — July 1, as restated.....	913,475	565,315	111,432	1,590,222
Fund balances — June 30.....	<u>\$ 1,015,336</u>	<u>\$ 471,202</u>	<u>\$ 119,234</u>	<u>\$ 1,605,772</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
- Natural Heritage Trust Fund
- 911 Fund
- Environment Management Protection Funds
- Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2014

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Natural Heritage Trust Fund	911 Fund
Assets					
Cash and cash equivalents	\$ 262,750	\$ 9,680	\$ 38,719	\$ —	\$ 48,580
Investments	228,637	—	—	—	—
Securities lending collateral	47,250	—	4,960	—	6,018
Receivables, net:					
Taxes receivable.....	—	—	1,501	—	—
Accounts receivable.....	—	2,271	368	—	5,947
Intergovernmental receivable.....	—	147	—	—	—
Interest receivable.....	97	—	15	—	17
Due from other funds	—	1,670	—	—	1,445
Inventories.....	—	21,803	—	—	—
Notes receivable, net.....	—	—	648	—	—
Securities held in trust.....	—	—	—	—	—
Restricted investments.....	—	—	—	—	—
Total Assets.....	<u>\$ 538,734</u>	<u>\$ 35,571</u>	<u>\$ 46,211</u>	<u>\$ —</u>	<u>\$ 62,007</u>
Deferred Outflows of Resources					
Forward funded state aid.....	59,860	—	—	—	—
Total Assets and Deferred Outflows.....	<u>598,594</u>	<u>35,571</u>	<u>46,211</u>	<u>—</u>	<u>62,007</u>
Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ —	\$ 3,120	\$ 4,527	\$ —	\$ 666
Accrued payroll.....	—	14	—	—	—
Intergovernmental payable.....	—	—	—	—	4,502
Claims payable.....	52,500	—	—	—	—
Obligations under securities lending.....	46,988	—	4,895	—	6,037
Due to other funds	—	57	—	—	39
Unearned revenue.....	—	211	—	—	—
Deposits payable.....	—	—	—	—	—
Funds held for others.....	—	—	—	—	—
Total Liabilities.....	<u>99,488</u>	<u>3,402</u>	<u>9,422</u>	<u>—</u>	<u>11,244</u>
Deferred Inflows of Resources					
Unavailable revenue.....	—	—	—	—	—
Fund Balances					
Nonspendable.....	—	21,803	—	—	—
Restricted.....	499,106	—	—	—	—
Committed.....	—	10,366	36,789	—	50,763
Total Fund Balances.....	<u>499,106</u>	<u>32,169</u>	<u>36,789</u>	<u>—</u>	<u>50,763</u>
Total Liabilities, Deferred Inflows and Fund Balances...	<u>\$ 598,594</u>	<u>\$ 35,571</u>	<u>\$ 46,211</u>	<u>\$ —</u>	<u>\$ 62,007</u>

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 143,543	\$ 242,951	\$ 746,223
—	309	228,946
12,867	10,589	81,684
682	—	2,183
4,304	8,943	21,833
11	665	823
39	21	189
3,942	6	7,063
—	4,678	26,481
355	280	1,283
43,083	—	43,083
1,930	—	1,930
<u>\$ 210,756</u>	<u>\$ 268,442</u>	<u>\$ 1,161,721</u>
—	—	59,860
<u>210,756</u>	<u>268,442</u>	<u>1,221,581</u>
\$ 3,233	\$ 8,998	\$ 20,544
71	54	139
671	100	5,273
—	—	52,500
12,973	10,186	81,079
80	367	543
64	178	453
—	4	4
43,083	96	43,179
<u>60,175</u>	<u>19,983</u>	<u>203,714</u>
1,967	564	2,531
—	4,678	26,481
8,713	42,584	550,403
139,901	200,633	438,452
148,614	247,895	1,015,336
<u>\$ 210,756</u>	<u>\$ 268,442</u>	<u>\$ 1,221,581</u>

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

For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Natural Heritage Trust Fund	911 Fund
Revenues					
Taxes:					
Sales and use tax.....	\$ —	\$ —	\$ —	\$ —	\$ —
Gasoline tax.....	—	—	17,565	—	—
Other taxes.....	—	—	—	—	74,342
Federal funds.....	—	—	—	—	—
Local funds.....	—	—	—	—	—
Investment earnings.....	14,962	—	264	—	309
Interest earnings on loans.....	—	—	—	—	—
Sales and services.....	1	89,238	—	—	751
Rental and lease of property.....	—	455	—	—	—
Fees, licenses, and fines.....	—	—	10,366	—	—
Contributions, gifts, and grants.....	—	34	—	—	—
Funds escheated.....	106,760	—	—	—	—
Federal recovery funds.....	—	—	—	—	—
Miscellaneous.....	—	150	2,450	—	—
Total revenues.....	<u>121,723</u>	<u>89,877</u>	<u>30,645</u>	<u>—</u>	<u>75,402</u>
Expenditures					
Current:					
General government.....	—	—	—	—	—
Higher education.....	70,245	—	—	—	—
Health and human services.....	—	—	—	—	—
Economic development.....	—	—	—	—	—
Environment and natural resources.....	—	—	32,050	—	—
Public safety, corrections, and regulation...	—	86,977	—	—	75,632
Transportation.....	—	—	—	—	—
Agriculture.....	—	—	—	—	—
Debt service:					
Principal retirement.....	—	—	—	—	—
Interest and fees.....	—	—	—	—	—
Total expenditures.....	<u>70,245</u>	<u>86,977</u>	<u>32,050</u>	<u>—</u>	<u>75,632</u>
Excess revenues over (under) expenditures..	<u>51,478</u>	<u>2,900</u>	<u>(1,405)</u>	<u>—</u>	<u>(230)</u>
Other Financing Sources (Uses)					
Sale of capital assets.....	—	12	—	—	—
Insurance recoveries.....	—	—	—	—	—
Transfers in.....	27,000	202	3,500	—	—
Transfers out.....	(22,856)	(4,194)	(5,389)	(10,484)	(23)
Total other financing sources (uses).....	<u>4,144</u>	<u>(3,980)</u>	<u>(1,889)</u>	<u>(10,484)</u>	<u>(23)</u>
Net change in fund balances.....	55,622	(1,080)	(3,294)	(10,484)	(253)
Fund balances — July 1, as restated.....	443,484	33,249	40,083	10,484	51,016
Fund balances — June 30.....	<u>\$ 499,106</u>	<u>\$ 32,169</u>	<u>\$ 36,789</u>	<u>\$ —</u>	<u>\$ 50,763</u>

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 7,786	\$ —	\$ 7,786
7,984	—	25,549
9,059	20,894	104,295
2,306	71,825	74,131
165	5,609	5,774
674	691	16,900
11	—	11
22	59,381	149,393
652	2,332	3,439
78,998	84,399	173,763
21,776	8,967	30,777
—	—	106,760
3,424	189	3,613
237	9,918	12,755
<u>133,094</u>	<u>264,205</u>	<u>714,946</u>
—	39,823	39,823
—	777	71,022
—	72,832	72,832
—	13,645	13,645
121,215	—	153,265
—	91,362	253,971
—	2	2
—	16,037	16,037
1,217	3,006	4,223
—	16	16
<u>122,432</u>	<u>237,500</u>	<u>624,836</u>
<u>10,662</u>	<u>26,705</u>	<u>90,110</u>
19	45	76
1	29	30
14,770	101,560	147,032
<u>(11,204)</u>	<u>(81,237)</u>	<u>(135,387)</u>
<u>3,586</u>	<u>20,397</u>	<u>11,751</u>
14,248	47,102	101,861
134,366	200,793	913,475
<u>\$ 148,614</u>	<u>\$ 247,895</u>	<u>\$ 1,015,336</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, 2014

(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.....	—	—	—	62	69	7	—	—	—
Intra-governmental transactions.....	27,000	27,000	—	222	218	(4)	19,548	21,040	1,492
Sales and services.....	—	—	—	92,259	88,414	(3,845)	—	—	—
Sale, rental, and lease of property..	—	—	—	325	489	164	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	7,231	10,448	3,217
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—	—
Federal recovery funds.....	—	—	—	—	—	—	—	—	—
Miscellaneous.....	175,107	117,071	(58,036)	176	164	(12)	110	2,630	2,520
Total revenues.....	<u>202,107</u>	<u>144,071</u>	<u>(58,036)</u>	<u>93,044</u>	<u>89,354</u>	<u>(3,690)</u>	<u>26,889</u>	<u>34,118</u>	<u>7,229</u>
Expenditures									
Current:									
General government.....	—	—	—	—	—	—	—	—	—
Higher education.....	94,118	93,346	772	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources.....	—	—	—	—	—	—	56,365	36,990	19,375
Public safety and corrections.....	—	—	—	94,756	87,144	7,612	—	—	—
Agriculture.....	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement.....	—	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—	—
Total expenditures.....	<u>94,118</u>	<u>93,346</u>	<u>772</u>	<u>94,756</u>	<u>87,144</u>	<u>7,612</u>	<u>56,365</u>	<u>36,990</u>	<u>19,375</u>
Excess revenues over (under) expenditures	<u>\$107,989</u>	50,725	<u>\$ (57,264)</u>	<u>\$ (1,712)</u>	2,210	<u>\$ 3,922</u>	<u>\$ (29,476)</u>	(2,872)	<u>\$ 26,604</u>
Fund balances (budgetary basis)									
at July 1, as restated.....		<u>430,129</u>			<u>7,470</u>			<u>41,591</u>	
Fund balances (budgetary basis)									
at June 30.....		<u>\$ 480,854</u>			<u>\$ 9,680</u>			<u>\$ 38,719</u>	

Natural Heritage Trust Fund			911 Fund			Environment Management Protection Funds		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,724	\$ 2,165	\$ (1,559)
—	—	—	—	—	—	111	165	54
—	—	—	—	—	—	27,922	21,502	(6,420)
—	—	—	—	—	—	63,594	57,135	(6,459)
—	—	—	735	745	10	26	22	(4)
—	—	—	—	—	—	54	667	613
—	—	—	75,500	73,775	(1,725)	102,237	77,356	(24,881)
—	—	—	—	—	—	25	287	262
—	—	—	—	—	—	8,158	3,554	(4,604)
—	—	—	240	217	(23)	2,105	965	(1,140)
—	—	—	<u>76,475</u>	<u>74,737</u>	<u>(1,738)</u>	<u>207,956</u>	<u>163,818</u>	<u>(44,138)</u>
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
10,468	10,468	—	—	—	—	225,169	151,142	74,027
—	—	—	113,279	74,957	38,322	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1,217	1,217	—
—	—	—	—	—	—	5	—	5
<u>10,468</u>	<u>10,468</u>	<u>—</u>	<u>113,279</u>	<u>74,957</u>	<u>38,322</u>	<u>226,391</u>	<u>152,359</u>	<u>74,032</u>
<u>\$(10,468)</u>	<u>(10,468)</u>	<u>\$ —</u>	<u>\$(36,804)</u>	<u>(220)</u>	<u>\$ 36,584</u>	<u>\$(18,435)</u>	<u>11,459</u>	<u>\$ 29,894</u>
	<u>10,468</u>			<u>48,800</u>			<u>133,956</u>	
	<u>\$ —</u>			<u>\$ 48,580</u>			<u>\$ 145,415</u>	

Continued

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, 2014

Exhibit C-5

(Dollars in Thousands)

	Departmental Funds			Total Nonmajor Special Revenue Funds		
	Final		Variance	Final		Variance
	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget
Revenues						
Departmental:						
Federal funds.....	\$ 93,095	\$ 71,939	\$ (21,156)	\$ 96,819	\$ 74,104	\$ (22,715)
Local funds.....	7,261	5,658	(1,603)	7,372	5,823	(1,549)
Inter-agency grants and allocations.....	12,006	6,612	(5,394)	39,990	28,183	(11,807)
Intra-governmental transactions.....	144,728	138,336	(6,392)	255,092	243,729	(11,363)
Sales and services.....	82,045	75,805	(6,240)	175,065	164,986	(10,079)
Sale, rental, and lease of property..	2,160	2,362	202	2,539	3,518	979
Fees, licenses, and fines.....	90,321	86,318	(4,003)	275,289	247,897	(27,392)
Contributions, gifts, and grants.....	6,249	4,341	(1,908)	6,274	4,628	(1,646)
Federal recovery funds.....	2	183	181	8,160	3,737	(4,423)
Miscellaneous.....	41,793	6,673	(35,120)	219,531	127,720	(91,811)
Total revenues.....	<u>479,660</u>	<u>398,227</u>	<u>(81,433)</u>	<u>1,086,131</u>	<u>904,325</u>	<u>(181,806)</u>
Expenditures						
Current:						
General government.....	98,571	77,194	21,377	98,571	77,194	21,377
Higher education.....	989	807	182	95,107	94,153	954
Health and human services.....	116,323	92,537	23,786	116,323	92,537	23,786
Economic development.....	81,496	22,576	58,920	81,496	22,576	58,920
Environmental and natural resources.....	—	—	—	292,002	198,600	93,402
Public safety and corrections.....	187,248	154,565	32,683	395,283	316,666	78,617
Agriculture.....	26,406	21,838	4,568	26,406	21,838	4,568
Debt service:						
Principal retirement.....	—	—	—	1,217	1,217	—
Interest and fees.....	—	—	—	5	—	5
Total expenditures.....	<u>511,033</u>	<u>369,517</u>	<u>141,516</u>	<u>1,106,410</u>	<u>824,781</u>	<u>281,629</u>
Excess revenues over (under) expenditures	<u>\$ (31,373)</u>	28,710	<u>\$ 60,083</u>	<u>\$ (20,279)</u>	79,544	<u>\$ 99,823</u>
Fund balances (budgetary basis)						
at July 1, as restated.....		<u>213,618</u>			<u>886,032</u>	
Fund balances (budgetary basis)						
at June 30.....		<u>\$ 242,328</u>			<u>\$ 965,576</u>	



NONMAJOR CAPITAL PROJECTS FUNDS

The Capital Projects funds are maintained to account for those financial resources received and used for the acquisition, construction or improvement of major governmental capital assets, as well as to provide grants for capital assets for 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
N.C. Infrastructure Finance Corporation

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS**

June 30, 2014

Exhibit C-6

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	N.C. Infrastructure Finance Corporation	Total Nonmajor Capital Projects Funds
Assets				
Securities lending collateral.....	\$ 5,130	\$ —	\$ —	\$ 5,130
Receivables, net:				
Accounts receivable.....	319	—	—	319
Intergovernmental receivable.....	48	—	—	48
Interest receivable.....	107	2	—	109
Notes receivable, net.....	39,753	—	—	39,753
Restricted/designated cash and cash equivalents.....	275,126	7	—	275,133
Restricted investments.....	—	202,300	2,429	204,729
Total Assets.....	<u>\$ 320,483</u>	<u>\$ 202,309</u>	<u>\$ 2,429</u>	<u>\$ 525,221</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 11,949	\$ 10,642	\$ 112	\$ 22,703
Intergovernmental payable.....	53	13	—	66
Obligations under securities lending.....	5,147	—	—	5,147
Due to other funds	107	—	—	107
Due to component units.....	22,651	1,321	339	24,311
Unearned revenue.....	1,685	—	—	1,685
Total Liabilities.....	<u>41,592</u>	<u>11,976</u>	<u>451</u>	<u>54,019</u>
Fund Balances				
Restricted.....	4,519	190,333	1,978	196,830
Committed.....	274,372	—	—	274,372
Total Fund Balances.....	<u>278,891</u>	<u>190,333</u>	<u>1,978</u>	<u>471,202</u>
Total Liabilities and Fund Balances.....	<u>\$ 320,483</u>	<u>\$ 202,309</u>	<u>\$ 2,429</u>	<u>\$ 525,221</u>

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

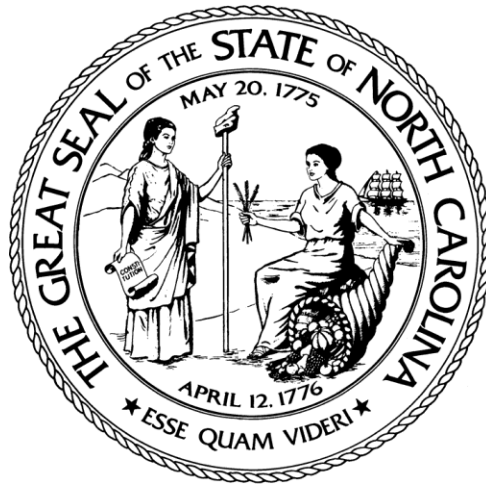
For the Fiscal Year Ended June 30, 2014

Exhibit C-7

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	N.C. Infrastructure Finance Corporation	Total Nonmajor Capital Projects Funds
Revenues				
Federal funds.....	\$ 2,640	\$ —	\$ —	\$ 2,640
Local funds.....	288	—	—	288
Investment earnings.....	316	155	2	473
Interest earnings on loans.....	626	—	—	626
Sales and services.....	730	—	—	730
Rental and lease of property.....	2	—	—	2
Fees, licenses and fines.....	651	—	—	651
Contributions, gifts, and grants.....	21,258	—	—	21,258
Federal recovery funds.....	517	—	—	517
Miscellaneous.....	3,700	—	—	3,700
Total revenues.....	<u>30,728</u>	<u>155</u>	<u>2</u>	<u>30,885</u>
Expenditures				
Current:				
General government.....	—	17	172	189
Higher education.....	97	86,747	26	86,870
Economic development.....	—	3,933	—	3,933
Environment & natural resources.....	6,225	4,768	—	10,993
Public safety, corrections, and regulation.....	1	—	—	1
Capital outlay.....	66,709	59,934	991	127,634
Debt service:				
Interest and fees.....	—	113	2	115
Total expenditures.....	<u>73,032</u>	<u>155,512</u>	<u>1,191</u>	<u>229,735</u>
Excess revenues over (under) expenditures.....	<u>(42,304)</u>	<u>(155,357)</u>	<u>(1,189)</u>	<u>(198,850)</u>
Other Financing Sources (Uses)				
Sale of capital assets.....	343	—	—	343
Insurance recoveries.....	54	—	—	54
Transfers in.....	126,155	—	—	126,155
Transfers out.....	(11,648)	(10,167)	—	(21,815)
Total other financing sources (uses).....	<u>114,904</u>	<u>(10,167)</u>	<u>—</u>	<u>104,737</u>
Net change in fund balances.....	72,600	(165,524)	(1,189)	(94,113)
Fund balances — July 1, as restated.....	206,291	355,857	3,167	565,315
Fund balances — June 30.....	<u>\$ 278,891</u>	<u>\$ 190,333</u>	<u>\$ 1,978</u>	<u>\$ 471,202</u>

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally 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, 2014

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents.....	\$ —	\$ 750	\$ 750
Securities lending collateral.....	13,733	1,216	14,949
Receivables, net:			
Accounts receivable.....	7	—	7
Interest receivable.....	—	3	3
Restricted/designated cash and cash equivalents.....	366	8,957	9,323
Restricted investments.....	108,847	535	109,382
Total Assets.....	<u>\$ 122,953</u>	<u>\$ 11,461</u>	<u>\$ 134,414</u>
Liabilities			
Obligations under securities lending.....	\$ 13,963	\$ 1,217	\$ 15,180
Fund Balances			
Nonspendable.....	92,522	9,489	102,011
Restricted.....	16,468	109	16,577
Committed.....	—	646	646
Total Fund Balances.....	<u>108,990</u>	<u>10,244</u>	<u>119,234</u>
Total Liabilities and Fund Balances.....	<u>\$ 122,953</u>	<u>\$ 11,461</u>	<u>\$ 134,414</u>

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

For the Fiscal Year Ended June 30, 2014

Exhibit C-9

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues			
Investment earnings.....	\$ 6,362	\$ 65	\$ 6,427
Fees, licenses, and fines.....	3,076	839	3,915
Contributions, gifts, and grants.....	16	—	16
Total revenues.....	<u>9,454</u>	<u>904</u>	<u>10,358</u>
Expenditures			
Current:			
Higher education.....	—	28	28
Environment and natural resources.....	67	72	139
Total expenditures.....	<u>67</u>	<u>100</u>	<u>167</u>
Excess revenues over (under) expenditures.....	<u>9,387</u>	<u>804</u>	<u>10,191</u>
Other Financing Sources (Uses)			
Transfers out.....	<u>(2,389)</u>	<u>—</u>	<u>(2,389)</u>
Net change in fund balances.....	6,998	804	7,802
Fund balances — July 1.....	101,992	9,440	111,432
Fund balances — June 30.....	<u>\$ 108,990</u>	<u>\$ 10,244</u>	<u>\$ 119,234</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, 2014

(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.....	\$ —	\$ 1,937	\$ 1,937	\$ —	\$ —	\$ —
Fees, licenses, and fines.....	1,785	3,071	1,286	1,223	839	(384)
Contributions, gifts, and grants.....	7	16	9	—	—	—
Miscellaneous.....	3,174	4,933	1,759	292	42	(250)
Total revenues.....	<u>4,966</u>	<u>9,957</u>	<u>4,991</u>	<u>1,515</u>	<u>881</u>	<u>(634)</u>
Expenditures:						
Current:						
Higher education.....	—	—	—	26	17	9
Environmental and natural resources.....	4,411	4,389	22	527	71	456
Total expenditures.....	<u>4,411</u>	<u>4,389</u>	<u>22</u>	<u>553</u>	<u>88</u>	<u>465</u>
Excess revenues over (under) expenditures	<u>\$ 555</u>	<u>5,568</u>	<u>\$ 5,013</u>	<u>\$ 962</u>	<u>793</u>	<u>\$ (169)</u>
Fund balances (budgetary basis)						
at July 1, as restated.....		<u>99,544</u>			<u>9,465</u>	
Fund balances (budgetary basis)						
at June 30.....		<u>\$ 105,112</u>			<u>\$ 10,258</u>	

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
\$ —	\$ 1,937	\$ 1,937
3,008	3,910	902
7	16	9
<u>3,466</u>	<u>4,975</u>	<u>1,509</u>
<u>6,481</u>	<u>10,838</u>	<u>4,357</u>
26	17	9
<u>4,938</u>	<u>4,460</u>	<u>478</u>
<u>4,964</u>	<u>4,477</u>	<u>487</u>
<u>\$ 1,517</u>	<u>6,361</u>	<u>\$ 4,844</u>
	<u>109,009</u>	
	<u>\$ 115,370</u>	

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PROPRIETARY FUNDS

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NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to 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, 2014

(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.....	\$ 19,259	\$ 3,703	\$ 5,379	\$ 1,812	\$ 8,540	\$ 3,042
Investments.....	69,596	—	—	—	11,894	—
Securities lending collateral.....	11,200	—	314	—	2,606	455
Receivables:						
Accounts receivable, net.....	—	236	337	21	—	8
Interest receivable.....	7	—	—	—	1	—
Premiums receivable.....	1,531	—	—	—	100	—
Notes receivable.....	—	—	—	—	—	—
Inventories.....	—	104	206	16	—	32
Prepaid items.....	2,916	—	241	—	31	—
Restricted cash and cash equivalents.....	—	—	86	—	—	—
Total current assets.....	<u>104,509</u>	<u>4,043</u>	<u>6,563</u>	<u>1,849</u>	<u>23,172</u>	<u>3,537</u>
Noncurrent Assets						
Investments.....	—	—	893	—	—	—
Notes receivable.....	—	—	—	—	—	—
Prepaid items.....	—	—	—	—	—	—
Capital assets-nondepreciable.....	—	1,379	483	3,755	—	—
Capital assets-depreciable, net.....	—	5,187	2,422	8,238	—	183
Total noncurrent assets.....	<u>—</u>	<u>6,566</u>	<u>3,798</u>	<u>11,993</u>	<u>—</u>	<u>183</u>
Total Assets.....	<u>104,509</u>	<u>10,609</u>	<u>10,361</u>	<u>13,842</u>	<u>23,172</u>	<u>3,720</u>
Liabilities						
Current Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	589	208	155	57	16	56
Accrued payroll.....	—	49	39	9	—	—
Intergovernmental payable.....	—	—	—	—	—	—
Claims payable.....	7,161	—	—	—	21,550	—
Obligations under securities lending.....	11,357	—	321	—	2,594	438
Due to other funds.....	7	6	—	2	—	11
Unearned revenue.....	11,532	597	30	—	3,923	—
Deposits payable.....	—	13	—	—	—	—
Notes payable.....	—	—	—	—	—	—
Compensated absences.....	8	23	4	10	—	111
Total current liabilities.....	<u>30,654</u>	<u>896</u>	<u>549</u>	<u>78</u>	<u>28,083</u>	<u>616</u>
Noncurrent Liabilities						
Accounts payable.....	—	—	—	—	—	—
Notes payable.....	—	—	—	—	—	—
Compensated absences.....	89	331	104	144	—	1,443
Total noncurrent liabilities.....	<u>89</u>	<u>331</u>	<u>104</u>	<u>144</u>	<u>—</u>	<u>1,443</u>
Total Liabilities.....	<u>30,743</u>	<u>1,227</u>	<u>653</u>	<u>222</u>	<u>28,083</u>	<u>2,059</u>
Net Position						
Net investment in capital assets.....	—	6,566	2,905	11,993	—	183
Restricted for:						
Capital outlay.....	—	—	86	—	—	—
Other purposes.....	—	—	—	—	—	—
Unrestricted.....	73,766	2,816	6,717	1,627	(4,911)	1,478
Total Net Position.....	<u>\$ 73,766</u>	<u>\$ 9,382</u>	<u>\$ 9,708</u>	<u>\$ 13,620</u>	<u>\$ (4,911)</u>	<u>\$ 1,661</u>

<u>State Banking Commission</u>	<u>ABC Commission</u>	<u>Occupational Licensing Boards</u>	<u>Departmental Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 1,587	\$ 4,401	\$ 15,796	\$ 5,145	\$ 68,664
—	—	10,871	—	92,361
—	—	272	520	15,367
—	5	122	35	764
—	—	62	—	70
—	—	—	—	1,631
—	—	3	—	3
—	16	80	56	510
—	—	348	—	3,536
—	—	—	—	86
<u>1,587</u>	<u>4,422</u>	<u>27,554</u>	<u>5,756</u>	<u>182,992</u>
—	—	13,719	—	14,612
—	—	136	—	136
—	—	1	—	1
—	551	3,804	339	10,311
<u>75</u>	<u>2,164</u>	<u>17,633</u>	<u>6,870</u>	<u>42,772</u>
<u>75</u>	<u>2,715</u>	<u>35,293</u>	<u>7,209</u>	<u>67,832</u>
<u>1,662</u>	<u>7,137</u>	<u>62,847</u>	<u>12,965</u>	<u>250,824</u>
42	26	1,320	115	2,584
—	—	—	20	117
—	—	—	3	3
—	—	—	—	28,711
—	—	278	531	15,519
23	26	2	6	83
—	—	18,129	125	34,336
—	—	—	—	13
—	—	217	—	217
<u>82</u>	<u>20</u>	<u>65</u>	<u>30</u>	<u>353</u>
<u>147</u>	<u>72</u>	<u>20,011</u>	<u>830</u>	<u>81,936</u>
—	—	37	—	37
—	—	3,775	—	3,775
<u>1,068</u>	<u>265</u>	<u>1,534</u>	<u>364</u>	<u>5,342</u>
<u>1,068</u>	<u>265</u>	<u>5,346</u>	<u>364</u>	<u>9,154</u>
<u>1,215</u>	<u>337</u>	<u>25,357</u>	<u>1,194</u>	<u>91,090</u>
75	2,715	17,451	7,209	49,097
—	—	—	—	86
—	—	808	—	808
<u>372</u>	<u>4,085</u>	<u>19,231</u>	<u>4,562</u>	<u>109,743</u>
<u>\$ 447</u>	<u>\$ 6,800</u>	<u>\$ 37,490</u>	<u>\$ 11,771</u>	<u>\$ 159,734</u>

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

For the Fiscal Year Ended June 30, 2014

(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.....	\$ —	\$ 272	\$ 743	\$ 29	\$ —	\$ 35
Student tuition and fees, net.....	—	—	—	—	—	—
Rental and lease earnings.....	—	5,238	169	947	—	—
Fees, licenses, and fines.....	—	9,316	2,226	1,969	—	15,488
Insurance premiums.....	5,942	—	—	—	4,838	—
Miscellaneous.....	—	2	14	—	—	153
Total operating revenues.....	<u>5,942</u>	<u>14,828</u>	<u>3,152</u>	<u>2,945</u>	<u>4,838</u>	<u>15,676</u>
Operating Expenses						
Personal services.....	633	5,828	1,463	1,440	—	12,167
Supplies and materials.....	1	1,130	78	145	—	223
Services.....	61	5,218	1,028	806	757	850
Cost of goods sold.....	—	—	287	—	—	—
Depreciation.....	—	547	122	507	—	14
Claims.....	2,132	96	—	—	10,523	—
Insurance and bonding.....	4,313	163	24	77	—	1
Other.....	—	968	206	22	—	795
Total operating expenses.....	<u>7,140</u>	<u>13,950</u>	<u>3,208</u>	<u>2,997</u>	<u>11,280</u>	<u>14,050</u>
Operating income (loss).....	<u>(1,198)</u>	<u>878</u>	<u>(56)</u>	<u>(52)</u>	<u>(6,442)</u>	<u>1,626</u>
Nonoperating Revenues (Expenses)						
Noncapital grants.....	—	—	—	—	—	558
Noncapital gifts, net.....	—	513	315	—	—	—
Investment earnings.....	3,872	—	168	—	693	1
Interest and fees.....	—	—	—	—	—	—
(Loss) on sale of equipment.....	—	(5)	—	(47)	—	—
Miscellaneous.....	(7)	14	—	2	—	2
Total nonoperating revenues (expenses).....	<u>3,865</u>	<u>522</u>	<u>483</u>	<u>(45)</u>	<u>693</u>	<u>561</u>
Income (loss) before contributions and transfers.....	2,667	1,400	427	(97)	(5,749)	2,187
Capital contributions.....	—	90	40	—	—	—
Transfers in.....	—	—	—	—	6,668	—
Transfers out.....	—	(735)	—	(3)	—	(288)
Change in net position.....	<u>2,667</u>	<u>755</u>	<u>467</u>	<u>(100)</u>	<u>919</u>	<u>1,899</u>
Net position — July 1, as restated.....	71,099	8,627	9,241	13,720	(5,830)	(238)
Net position — June 30.....	<u>\$ 73,766</u>	<u>\$ 9,382</u>	<u>\$ 9,708</u>	<u>\$ 13,620</u>	<u>\$ (4,911)</u>	<u>\$ 1,661</u>

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ —	\$ 1	\$ 443	\$ 82	\$ 1,605
—	—	12	—	12
—	—	—	1,183	7,537
13,307	13,338	36,687	3,394	95,725
—	—	—	—	10,780
26	18	236	25	474
<u>13,333</u>	<u>13,357</u>	<u>37,378</u>	<u>4,684</u>	<u>116,133</u>
10,222	2,882	25,573	3,861	64,069
86	107	902	307	2,979
1,918	9,206	7,082	1,614	28,540
—	—	—	76	363
7	114	1,362	241	2,914
—	—	133	—	12,884
1	16	50	113	4,758
689	108	1,041	340	4,169
<u>12,923</u>	<u>12,433</u>	<u>36,143</u>	<u>6,552</u>	<u>120,676</u>
<u>410</u>	<u>924</u>	<u>1,235</u>	<u>(1,868)</u>	<u>(4,543)</u>
—	—	—	—	558
—	—	—	528	1,356
—	—	219	26	4,979
—	—	(93)	—	(93)
—	—	(92)	(17)	(161)
—	7	27	18	63
<u>—</u>	<u>7</u>	<u>61</u>	<u>555</u>	<u>6,702</u>
410	931	1,296	(1,313)	2,159
—	—	—	13	143
—	—	—	500	7,168
(154)	(72)	—	(47)	(1,299)
256	859	1,296	(847)	8,171
191	5,941	36,194	12,618	151,563
<u>\$ 447</u>	<u>\$ 6,800</u>	<u>\$ 37,490</u>	<u>\$ 11,771</u>	<u>\$ 159,734</u>

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

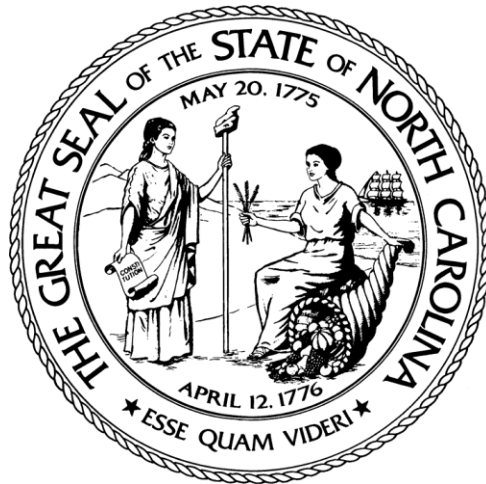
For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Cash Flows from Operating Activities						
Receipts from customers.....	\$ 12,972	\$ 15,213	\$ 3,170	\$ 2,943	\$ 5,066	\$ 15,516
Payments to suppliers.....	(3,113)	(6,448)	(1,636)	(1,030)	(286)	(1,227)
Payments to employees.....	(635)	(5,920)	(1,467)	(1,436)	—	(12,182)
Payments for prizes, benefits, and claims.....	(2,925)	(560)	—	—	(7,554)	—
Other receipts.....	—	14	—	2	—	155
Other payments.....	—	(408)	—	(8)	—	(598)
Net cash flows provided (used) by operating activities.....	6,299	1,891	67	471	(2,774)	1,664
Cash Provided From (Used For)						
Noncapital Financing Activities						
Grant receipts.....	—	—	—	—	—	558
Transfers from other funds.....	—	—	—	—	6,668	—
Transfers to other funds.....	—	(735)	—	(3)	—	(288)
Gifts.....	—	513	281	—	—	—
Total cash provided from (used for) noncapital financing activities.....	—	(222)	281	(3)	6,668	270
Cash Provided From (Used For)						
Capital and Related Financing Activities						
Acquisition and construction of capital assets.....	—	(184)	(47)	(54)	—	(41)
Proceeds from the sale of capital assets.....	—	14	—	2	—	—
Capital contributions.....	—	—	37	—	—	—
Principal paid on capital debt.....	—	—	—	—	—	—
Interest paid on capital debt.....	—	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities.....	—	(170)	(10)	(52)	—	(41)
Cash Provided From (Used For)						
Investment Activities						
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	2,389	—	—	—
Purchase of non-State Treasurer investments.....	—	—	(924)	—	—	—
Investment earnings.....	80	—	55	—	15	8
Total cash provided from (used for) investment activities.....	80	—	1,520	—	15	8
Net increase (decrease) in cash and cash equivalents.....	6,379	1,499	1,858	416	3,909	1,901
Cash and cash equivalents at July 1.....	12,880	2,204	3,607	1,396	4,631	1,141
Cash and cash equivalents at June 30.....	\$ 19,259	\$ 3,703	\$ 5,465	\$ 1,812	\$ 8,540	\$ 3,042
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities						
Operating income (loss).....	\$ (1,198)	\$ 878	\$ (56)	\$ (52)	\$ (6,442)	\$ 1,626
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation.....	—	547	122	507	—	14
Nonoperating miscellaneous income (expense).....	—	14	—	2	—	2
(Increases) decreases in assets:						
Receivables.....	1,495	292	11	(2)	(77)	(7)
Inventories.....	—	25	(7)	(2)	—	—
Prepaid items.....	678	—	(53)	—	456	—
Notes receivable.....	—	—	—	—	—	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities.....	(215)	32	29	21	2,984	45
Due to other funds.....	6	(1)	—	(1)	—	(1)
Compensated absences.....	(2)	10	14	(2)	—	(15)
Unearned revenue.....	5,535	93	7	—	305	—
Deposits payable.....	—	1	—	—	—	—
Total cash provided from (used for) operations.....	\$ 6,299	\$ 1,891	\$ 67	\$ 471	\$ (2,774)	\$ 1,664
Noncash Investing, Capital, and Financing Activities						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ —	\$ —	\$ —	\$ 587	\$ —
Donated or transferred assets.....	—	—	—	—	—	—
Change in fair value of investments.....	34	—	4	—	91	(7)
Change in securities lending collateral.....	3,696	—	89	—	1,127	375

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 13,307	\$ 13,352	\$ 37,744	\$ 4,828	\$ 124,111
(2,172)	(9,942)	(8,237)	(2,094)	(36,185)
(10,133)	(2,840)	(25,736)	(3,851)	(64,200)
—	—	—	—	(11,039)
26	7	188	1	393
(531)	(85)	(1,041)	(291)	(2,962)
<u>497</u>	<u>492</u>	<u>2,918</u>	<u>(1,407)</u>	<u>10,118</u>
—	—	—	—	558
—	—	—	500	7,168
(154)	(72)	—	(47)	(1,299)
—	—	—	528	1,322
<u>(154)</u>	<u>(72)</u>	<u>—</u>	<u>981</u>	<u>7,749</u>
—	—	(816)	—	(1,142)
—	—	37	—	53
—	—	—	—	37
—	—	(597)	—	(597)
—	—	(93)	—	(93)
<u>—</u>	<u>—</u>	<u>(1,469)</u>	<u>—</u>	<u>(1,742)</u>
—	—	14,293	—	16,682
—	—	(15,351)	—	(16,275)
—	—	308	18	484
<u>—</u>	<u>—</u>	<u>(750)</u>	<u>18</u>	<u>891</u>
343	420	699	(408)	17,016
1,244	3,981	15,097	5,553	51,734
<u>\$ 1,587</u>	<u>\$ 4,401</u>	<u>\$ 15,796</u>	<u>\$ 5,145</u>	<u>\$ 68,750</u>
\$ 410	\$ 924	\$ 1,235	\$ (1,868)	\$ (4,543)
7	114	1,362	241	2,914
—	7	27	18	70
—	(5)	(70)	5	1,642
—	(2)	(12)	1	3
—	—	134	—	1,215
—	—	(22)	—	(22)
(8)	(596)	(429)	57	1,920
(1)	8	—	—	10
89	42	96	17	249
—	—	597	122	6,659
—	—	—	—	1
<u>\$ 497</u>	<u>\$ 492</u>	<u>\$ 2,918</u>	<u>\$ (1,407)</u>	<u>\$ 10,118</u>
\$ —	\$ —	\$ —	\$ —	\$ 587
—	—	—	13	13
—	—	126	9	257
—	—	110	120	5,517

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INTERNAL SERVICE FUNDS

The internal service funds are maintained to account for the operations of state agencies that provide services to other state agencies, component units, or other governmental units on a cost reimbursement basis.

The following activities are included in the internal service funds:

Office of the State Controller:

Workers' Compensation Program

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, 2014

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Assets					
Current Assets					
Cash and cash equivalents.....	\$ 2,226	\$ 27,671	\$ 32,187	\$ —	\$ 398
Investments.....	—	30,283	—	—	—
Securities lending collateral.....	—	7,315	—	—	—
Receivables:					
Accounts receivable, net.....	1,643	—	1,822	546	5,502
Interest receivable.....	—	10	—	—	—
Premiums receivable.....	—	686	—	—	—
Due from other funds.....	5,882	—	2,916	—	3,219
Due from component units.....	—	—	387	—	—
Inventories.....	—	—	135	116	—
Prepaid items.....	—	—	—	—	—
Total current assets.....	<u>9,751</u>	<u>65,965</u>	<u>37,447</u>	<u>662</u>	<u>9,119</u>
Noncurrent Assets					
Capital assets-nondepreciable.....	—	—	288	—	—
Capital assets-depreciable, net.....	—	—	50,497	212	—
Total noncurrent assets.....	<u>—</u>	<u>—</u>	<u>50,785</u>	<u>212</u>	<u>—</u>
Total Assets.....	<u>9,751</u>	<u>65,965</u>	<u>88,232</u>	<u>874</u>	<u>9,119</u>
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	—	5,124	2,461	17	109
Accrued payroll.....	—	—	—	—	3,907
Intergovernmental payable.....	—	—	—	—	—
Claims payable.....	—	1,340	—	—	—
Obligations under securities lending.....	—	7,333	—	—	—
Due to other funds.....	—	—	37	74	6
Unearned revenue.....	—	8,024	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences.....	—	17	13	17	11
Total current liabilities.....	<u>—</u>	<u>21,838</u>	<u>2,511</u>	<u>108</u>	<u>4,033</u>
Noncurrent Liabilities					
Capital leases payable.....	—	—	—	—	—
Compensated absences.....	—	198	140	184	67
Total noncurrent liabilities.....	<u>—</u>	<u>198</u>	<u>140</u>	<u>184</u>	<u>67</u>
Total Liabilities.....	<u>—</u>	<u>22,036</u>	<u>2,651</u>	<u>292</u>	<u>4,100</u>
Net Position					
Net investment in capital assets.....	—	—	50,785	212	—
Unrestricted.....	9,751	43,929	34,796	370	5,019
Total Net Position.....	<u>\$ 9,751</u>	<u>\$ 43,929</u>	<u>\$ 85,581</u>	<u>\$ 582</u>	<u>\$ 5,019</u>

Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 9,196	\$ 16,745	\$ 1,259	\$ 89,682
—	—	—	30,283
—	—	—	7,315
1,606	6,226	89	17,434
—	—	—	10
—	—	—	686
6,421	3,651	5	22,094
4	315	—	706
7	—	—	258
1,408	92	—	1,500
<u>18,642</u>	<u>27,029</u>	<u>1,353</u>	<u>169,968</u>
3,089	—	19	3,396
43,379	4,067	62	98,217
46,468	4,067	81	101,613
<u>65,110</u>	<u>31,096</u>	<u>1,434</u>	<u>271,581</u>
545	15	640	8,911
—	—	—	3,907
10	—	—	10
—	—	—	1,340
—	—	—	7,333
61	294	260	732
—	—	—	8,024
—	158	—	158
288	96	8	450
<u>904</u>	<u>563</u>	<u>908</u>	<u>30,865</u>
—	165	—	165
3,554	1,181	88	5,412
<u>3,554</u>	<u>1,346</u>	<u>88</u>	<u>5,577</u>
<u>4,458</u>	<u>1,909</u>	<u>996</u>	<u>36,442</u>
46,468	3,744	81	101,290
14,184	25,443	357	133,849
<u>\$ 60,652</u>	<u>\$ 29,187</u>	<u>\$ 438</u>	<u>\$ 235,139</u>

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

For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Operating Revenues					
Sales and services.....	\$ 86,519	\$ —	\$ 37,267	\$ 4,009	\$ 52,135
Rental and lease earnings.....	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—
Insurance premiums.....	—	21,544	—	—	—
Miscellaneous.....	—	—	5,698	—	—
Total operating revenues.....	<u>86,519</u>	<u>21,544</u>	<u>42,965</u>	<u>4,009</u>	<u>52,135</u>
Operating Expenses					
Personal services.....	—	1,724	2,498	2,866	50,447
Supplies and materials.....	—	5	16,032	50	23
Services.....	87,572	100	2,653	1,043	169
Cost of goods sold.....	—	—	431	—	—
Depreciation.....	—	—	9,209	65	—
Claims.....	—	1,238	—	—	—
Insurance and bonding.....	—	20,349	1,209	—	2
Other.....	—	114	4	84	28
Total operating expenses.....	<u>87,572</u>	<u>23,530</u>	<u>32,036</u>	<u>4,108</u>	<u>50,669</u>
Operating income (loss).....	<u>(1,053)</u>	<u>(1,986)</u>	<u>10,929</u>	<u>(99)</u>	<u>1,466</u>
Nonoperating Revenues (Expenses)					
Noncapital grants.....	—	—	—	—	—
Investment earnings.....	—	1,942	—	—	—
Interest and fees.....	—	—	—	—	—
Insurance recoveries.....	—	—	149	—	—
Gain (loss) on sale of equipment.....	—	—	1,278	—	—
Miscellaneous.....	—	(6)	146	—	—
Total nonoperating revenues (expenses).....	<u>—</u>	<u>1,936</u>	<u>1,573</u>	<u>—</u>	<u>—</u>
Income (loss) before contributions and transfers.....	(1,053)	(50)	12,502	(99)	1,466
Capital contributions.....	—	—	527	—	—
Transfers in.....	—	—	—	929	—
Transfers out.....	—	—	—	—	—
Change in net position.....	<u>(1,053)</u>	<u>(50)</u>	<u>13,029</u>	<u>830</u>	<u>1,466</u>
Net position — July 1.....	10,804	43,979	72,552	(248)	3,553
Net position — June 30.....	<u>\$ 9,751</u>	<u>\$ 43,929</u>	<u>\$ 85,581</u>	<u>\$ 582</u>	<u>\$ 5,019</u>

Computing Services	State Telecommunications Services	Surplus Property	Totals
\$ 88,398	\$ 85,620	\$ 2,306	\$ 356,254
—	—	63	63
1,672	—	57	1,729
—	—	—	21,544
—	72	114	5,884
<u>90,070</u>	<u>85,692</u>	<u>2,540</u>	<u>385,474</u>
34,438	9,644	1,505	103,122
7,435	1,251	100	24,896
18,866	56,661	410	167,474
—	—	10	441
7,356	1,946	11	18,587
—	—	—	1,238
141	41	19	21,761
29,784	7,144	70	37,228
<u>98,020</u>	<u>76,687</u>	<u>2,125</u>	<u>374,747</u>
<u>(7,950)</u>	<u>9,005</u>	<u>415</u>	<u>10,727</u>
531	—	—	531
—	—	—	1,942
—	(34)	—	(34)
—	—	—	149
—	—	—	1,278
2	—	38	180
<u>533</u>	<u>(34)</u>	<u>38</u>	<u>4,046</u>
(7,417)	8,971	453	14,773
—	—	—	527
5,949	—	—	6,878
<u>(57)</u>	<u>(4,800)</u>	<u>—</u>	<u>(4,857)</u>
<u>(1,525)</u>	<u>4,171</u>	<u>453</u>	<u>17,321</u>
<u>62,177</u>	<u>25,016</u>	<u>(15)</u>	<u>217,818</u>
<u>\$ 60,652</u>	<u>\$ 29,187</u>	<u>\$ 438</u>	<u>\$ 235,139</u>

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Cash Flows From Operating Activities					
Receipts from customers.....	\$ 9,181	\$ 10,059	\$ 3,670	\$ 618	\$ —
Receipts from other funds.....	76,306	11,840	39,192	3,036	46,695
Payments to suppliers.....	(87,572)	(19,173)	(17,029)	(324)	(36)
Payments to employees.....	—	(1,785)	(2,506)	(2,884)	(48,441)
Payments for benefits and claims.....	—	(633)	—	—	—
Payments to other funds.....	—	(384)	(2,124)	(1,370)	(49)
Other receipts.....	—	—	207	—	—
Other payments.....	—	—	(3)	(5)	(28)
Net cash flows provided (used) by operating activities.....	(2,085)	(76)	21,407	(929)	(1,859)
Cash Provided From (Used For) Noncapital Financing Activities					
Grant receipts.....	—	—	—	—	—
Transfers from other funds.....	—	—	—	929	—
Transfers to other funds.....	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	—	—	—	929	—
Cash Provided From (Used For) Capital and Related Financing Activities					
Acquisition and construction of capital assets.....	—	—	(28,070)	—	—
Proceeds from the sale of capital assets.....	—	—	1,775	—	—
Capital contributions.....	—	—	485	—	—
Principal paid on capital debt.....	—	—	—	—	—
Interest paid on capital debt.....	—	—	—	—	—
Insurance recoveries.....	—	—	149	—	—
Total cash provided from (used for) capital and related financing activities.....	—	—	(25,661)	—	—
Cash Provided From (Used For) Investment Activities					
Investment earnings.....	—	145	—	—	—
Net increase (decrease) in cash and cash equivalents.....	(2,085)	69	(4,254)	—	(1,859)
Cash and cash equivalents at July 1.....	4,311	27,602	36,441	—	2,257
Cash and cash equivalents at June 30.....	\$ 2,226	\$ 27,671	\$ 32,187	\$ —	\$ 398
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities					
Operating income (loss).....	\$ (1,053)	\$ (1,986)	\$ 10,929	\$ (99)	\$ 1,466
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation.....	—	—	9,209	65	—
Nonoperating miscellaneous income (expense).....	—	—	146	—	—
(Increases) decreases in assets:					
Receivables.....	(143)	(592)	(226)	(373)	(2,230)
Due from other funds.....	(889)	—	219	18	(3,210)
Due from component units.....	—	—	(34)	—	—
Inventories.....	—	—	23	59	—
Prepaid items.....	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	—	1,617	1,122	(10)	2,080
Due to other funds.....	—	—	28	(577)	4
Compensated absences.....	—	(62)	(9)	(12)	31
Unearned revenue.....	—	947	—	—	—
Total cash provided from (used for) operations.....	\$ (2,085)	\$ (76)	\$ 21,407	\$ (929)	\$ (1,859)
Noncash Investing, Capital, and Financing Activities					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ 1,494	\$ —	\$ —	\$ —
Donated or transferred assets.....	—	—	42	—	—
Change in fair value of investments.....	—	296	—	—	—
Change in securities lending collateral.....	—	1,983	—	—	—

Computing Services	State Telecommunications Services	Surplus Property	Totals
\$ 2,556	\$ 17,123	\$ 793	\$ 44,000
85,825	68,248	1,577	332,719
(51,053)	(62,229)	(306)	(237,722)
(34,325)	(9,787)	(1,500)	(101,228)
—	—	—	(633)
(6,975)	(2,879)	(163)	(13,944)
2	—	152	361
—	—	(64)	(100)
<u>(3,970)</u>	<u>10,476</u>	<u>489</u>	<u>23,453</u>
531	—	—	531
5,949	—	—	6,878
(57)	(4,800)	—	(4,857)
<u>6,423</u>	<u>(4,800)</u>	<u>—</u>	<u>2,552</u>
(1,999)	(2,041)	—	(32,110)
—	—	—	1,775
—	—	—	485
—	(124)	—	(124)
—	(34)	—	(34)
—	—	—	149
<u>(1,999)</u>	<u>(2,199)</u>	<u>—</u>	<u>(29,859)</u>
—	—	—	145
454	3,477	489	(3,709)
8,742	13,268	770	93,391
<u>\$ 9,196</u>	<u>\$ 16,745</u>	<u>\$ 1,259</u>	<u>\$ 89,682</u>

\$ (7,950)	\$ 9,005	\$ 415	\$ 10,727
7,356	1,946	11	18,587
2	—	38	186
(1,072)	(575)	(55)	(5,266)
(708)	212	—	(4,358)
11	42	—	19
5	—	—	87
(851)	454	—	(397)
(880)	(523)	(56)	3,350
4	58	132	(351)
113	(143)	4	(78)
—	—	—	947
<u>\$ (3,970)</u>	<u>\$ 10,476</u>	<u>\$ 489</u>	<u>\$ 23,453</u>

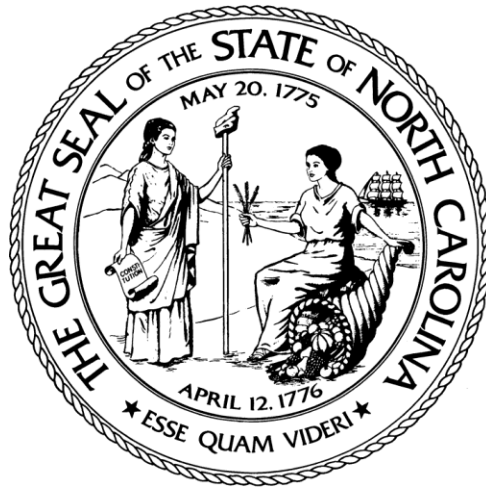
\$ —	\$ —	\$ —	\$ 1,494
—	—	—	42
—	—	—	296
—	—	—	1,983

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FIDUCIARY FUNDS

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INVESTMENT TRUST FUNDS

Investment trust funds account for the external portion of the Investment Pool and other investments that are legally separate entities and are not part of the state 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, 2014

Exhibit F-1

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Assets			
Cash and cash equivalents.....	\$ 10,559	\$ —	\$ 10,559
Investments:			
State Treasurer investment pool.....	889,450	145,603	1,035,053
Securities lending collateral.....	94,844	1,978	96,822
Receivables:			
Interest receivable.....	1,215	—	1,215
Total Assets.....	<u>996,068</u>	<u>147,581</u>	<u>1,143,649</u>
Liabilities			
Obligations under securities lending.....	<u>95,165</u>	<u>2,027</u>	<u>97,192</u>
Net Position			
Restricted for:			
Pool participants.....	900,903	—	900,903
Individuals, organizations, and other governments.....	—	145,554	145,554
Total Net Position.....	<u>\$ 900,903</u>	<u>\$ 145,554</u>	<u>\$ 1,046,457</u>

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

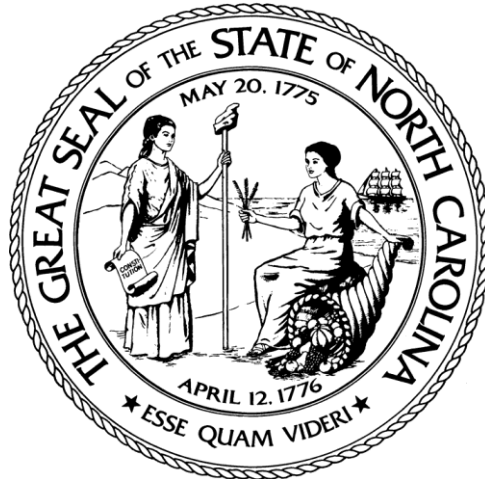
For the Fiscal Year Ended June 30, 2014

Exhibit F-2

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Additions			
Investment Income:			
Investment earnings.....	\$ 26,305	\$ 25,292	\$ 51,597
Less investment expenses.....	(304)	(200)	(504)
Net investment income.....	<u>26,001</u>	<u>25,092</u>	<u>51,093</u>
Pool share transactions:			
Reinvestment of dividends.....	26,147	25,092	51,239
Net share purchases/(redemptions).....	(33,873)	21,004	(12,869)
Net pool share transactions.....	<u>(7,726)</u>	<u>46,096</u>	<u>38,370</u>
Total Additions.....	<u>18,275</u>	<u>71,188</u>	<u>89,463</u>
Deductions			
Distributions paid and payable.....	<u>26,147</u>	<u>25,092</u>	<u>51,239</u>
Change in net position.....	(7,872)	46,096	38,224
Net position — July 1, as restated.....	908,775	99,458	1,008,233
Net position — June 30.....	<u>\$ 900,903</u>	<u>\$ 145,554</u>	<u>\$ 1,046,457</u>

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PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds account for 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, 2014

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.....	\$ 424	\$ 101,605	\$ 7,013	\$ 109,042
Investments:				
U.S. government securities.....	—	315	—	315
Certificates of deposit.....	—	48,530	—	48,530
State Treasurer investment pool.....	—	—	7,195	7,195
Securities lending collateral.....	53	—	866	919
Receivables:				
Interest receivable.....	—	—	3	3
Sureties.....	873,265	—	—	873,265
Total Assets.....	<u>873,742</u>	<u>150,450</u>	<u>15,077</u>	<u>1,039,269</u>
Liabilities				
Obligations under securities lending.....	<u>53</u>	<u>—</u>	<u>881</u>	<u>934</u>
Net Position				
Restricted for:				
Individuals, organizations, and other governments.....	873,689	150,450	14,196	1,038,335
Total Net Position.....	<u>\$ 873,689</u>	<u>\$ 150,450</u>	<u>\$ 14,196</u>	<u>\$ 1,038,335</u>

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

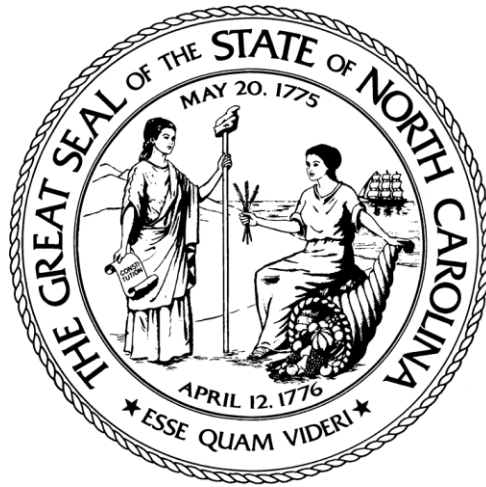
For the Fiscal Year Ended June 30, 2014

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.....	\$ 10,662	\$ 101,781	\$ —	\$ 112,443
Total contributions.....	<u>10,662</u>	<u>101,781</u>	<u>—</u>	<u>112,443</u>
Investment Income:				
Investment earnings.....	3	2,610	467	3,080
Less investment expenses.....	—	—	(12)	(12)
Net investment income.....	<u>3</u>	<u>2,610</u>	<u>455</u>	<u>3,068</u>
Total Additions.....	<u>10,665</u>	<u>104,391</u>	<u>455</u>	<u>115,511</u>
Deductions				
Payments in accordance with trust arrangements.....	8,278	108,591	382	117,251
Change in net position.....	2,387	(4,200)	73	(1,740)
Net position — July 1.....	<u>871,302</u>	<u>154,650</u>	<u>14,123</u>	<u>1,040,075</u>
Net position — June 30.....	<u>\$ 873,689</u>	<u>\$ 150,450</u>	<u>\$ 14,196</u>	<u>\$ 1,038,335</u>

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AGENCY FUNDS

Agency funds account for 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, 2014

(Dollars in Thousands)

	Balance, July 1, 2013 (as restated)	Additions	Deductions	Balance, June 30, 2014
Local Sales Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 408,900	\$ 2,470,099	\$ (2,450,331)	\$ 428,668
Receivables:				
Taxes receivable.....	135,700	149,500	(135,700)	149,500
Due from other funds.....	29,505	26,170	(29,505)	26,170
Total Assets.....	<u>\$ 574,105</u>	<u>\$ 2,645,769</u>	<u>\$ (2,615,536)</u>	<u>\$ 604,338</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 574,105	\$ 2,645,769	\$ (2,615,536)	\$ 604,338
Total Liabilities.....	<u>\$ 574,105</u>	<u>\$ 2,645,769</u>	<u>\$ (2,615,536)</u>	<u>\$ 604,338</u>
Clerks of Court				
Assets				
Cash and cash equivalents.....	\$ 95,867	\$ 1,692,226	\$ (1,681,166)	\$ 106,927
Receivables:				
Accounts receivable.....	389	4,816	(4,818)	387
Sureties.....	97,774	44,464	(41,702)	100,536
Total Assets.....	<u>\$ 194,030</u>	<u>\$ 1,741,506</u>	<u>\$ (1,727,686)</u>	<u>\$ 207,850</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 4,434	\$ 101,092	\$ (100,518)	\$ 5,008
Funds held for others.....	189,596	545,410	(532,164)	202,842
Total Liabilities.....	<u>\$ 194,030</u>	<u>\$ 646,502</u>	<u>\$ (632,682)</u>	<u>\$ 207,850</u>
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents.....	\$ 4,479,403	\$ —	\$ (296,001)	\$ 4,183,402
Investments:				
State Treasurer investment pool.....	40,775	2,465	—	43,240
Securities lending collateral.....	399,316	130,114	—	529,430
Total Assets.....	<u>\$ 4,919,494</u>	<u>\$ 132,579</u>	<u>\$ (296,001)</u>	<u>\$ 4,756,072</u>
Liabilities				
Obligations under securities lending.....	\$ 409,187	\$ 121,579	\$ —	\$ 530,766
Funds held for others.....	4,510,307	—	(285,001)	4,225,306
Total Liabilities.....	<u>\$ 4,919,494</u>	<u>\$ 121,579</u>	<u>\$ (285,001)</u>	<u>\$ 4,756,072</u>
Insurers in Receivership				
Assets				
Cash and cash equivalents.....	\$ 48,362	\$ 349	\$ —	\$ 48,711
Investments:				
Corporate bonds.....	4,331	—	(1,942)	2,389
Receivables:				
Accounts receivable.....	809	—	(228)	581
Total Assets.....	<u>\$ 53,502</u>	<u>\$ 349</u>	<u>\$ (2,170)</u>	<u>\$ 51,681</u>
Liabilities				
Funds held for others.....	\$ 53,502	\$ 349	\$ (2,170)	\$ 51,681
Total Liabilities.....	<u>\$ 53,502</u>	<u>\$ 349</u>	<u>\$ (2,170)</u>	<u>\$ 51,681</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2014

Exhibit F-5

(Dollars in Thousands)

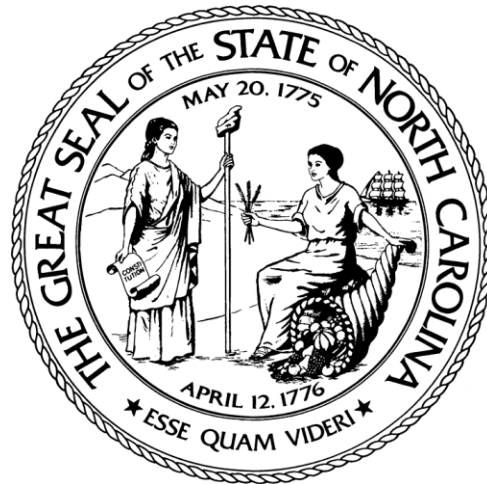
	Balance, July 1, 2013 (as restated)	Additions	Deductions	Balance, June 30, 2014
Vehicle Property Tax Collections				
Assets				
Cash and cash equivalents.....	\$ —	\$ 521,639	\$ (458,445)	\$ 63,194
Securities lending collateral.....	—	7,809	(184)	7,625
Receivables:				
Interest receivable.....	—	21	—	21
Total Assets.....	<u>\$ —</u>	<u>\$ 529,469</u>	<u>\$ (458,629)</u>	<u>\$ 70,840</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	—	565,118	(502,087)	63,031
Obligations under securities lending.....	—	7,809	—	7,809
Total Liabilities.....	<u>\$ —</u>	<u>\$ 572,927</u>	<u>\$ (502,087)</u>	<u>\$ 70,840</u>
Departmental Funds				
Assets				
Cash and cash equivalents.....	\$ 74,753	\$ 420,548	\$ (455,029)	\$ 40,272
Investments:				
Certificates of deposit.....	325	200	—	525
Securities lending collateral.....	2,746	909	—	3,655
Receivables:				
Accounts receivable.....	3,201	4,300	—	7,501
Intergovernmental receivables.....	—	203	(203)	—
Due from other funds.....	14,077	2,815	(5,215)	11,677
Total Assets.....	<u>\$ 95,102</u>	<u>\$ 428,975</u>	<u>\$ (460,447)</u>	<u>\$ 63,630</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 370	\$ 374	\$ (494)	\$ 250
Intergovernmental payable.....	60,310	332,298	(365,923)	26,685
Obligations under securities lending.....	2,809	853	—	3,662
Deposits payable.....	1,925	3,653	(3,618)	1,960
Funds held for others.....	29,688	58,213	(56,828)	31,073
Total Liabilities.....	<u>\$ 95,102</u>	<u>\$ 395,391</u>	<u>\$ (426,863)</u>	<u>\$ 63,630</u>
Total Agency Funds				
Assets				
Cash and cash equivalents.....	\$ 5,107,285	\$ 5,104,861	\$ (5,340,972)	\$ 4,871,174
Investments:				
Corporate bonds.....	4,331	—	(1,942)	2,389
Certificates of deposit.....	325	200	—	525
State Treasurer investment pool.....	40,775	2,465	—	43,240
Securities lending collateral.....	402,062	138,832	(184)	540,710
Receivables:				
Taxes receivable.....	135,700	149,500	(135,700)	149,500
Accounts receivable.....	4,399	9,116	(5,046)	8,469
Intergovernmental receivables.....	—	203	(203)	—
Interest receivable.....	—	21	—	21
Due from other funds.....	43,582	28,985	(34,720)	37,847
Sureties.....	97,774	44,464	(41,702)	100,536
Total Assets.....	<u>\$ 5,836,233</u>	<u>\$ 5,478,647</u>	<u>\$ (5,560,469)</u>	<u>\$ 5,754,411</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 370	\$ 374	\$ (494)	\$ 250
Intergovernmental payable.....	638,849	3,644,277	(3,584,064)	699,062
Obligations under securities lending.....	411,996	130,241	—	542,237
Deposits payable.....	1,925	3,653	(3,618)	1,960
Funds held for others.....	4,783,093	603,972	(876,163)	4,510,902
Total Liabilities.....	<u>\$ 5,836,233</u>	<u>\$ 4,382,517</u>	<u>\$ (4,464,339)</u>	<u>\$ 5,754,411</u>

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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
- N.C. Health Insurance Risk Pool

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, 2014

(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.....	\$ 47,072	\$ 5,692	\$ 637	\$ 5,981	\$ 8,947
Investments.....	—	3,117	955,895	11,854	—
Receivables, net.....	44,318	33,516	—	7,138	15
Due from component units.....	2,508	—	—	—	—
Due from primary government.....	—	71,618	—	—	—
Inventories.....	—	—	—	758	—
Prepaid items.....	53	—	90	1,488	—
Notes receivable, net.....	2,384,708	1,067,183	228	—	—
Restricted/designated cash and cash equivalents.....	383,708	351,799	—	3,215	895
Restricted investments.....	1,553,715	85,991	—	—	—
Capital assets-nondepreciable.....	5,000	208	904	61,121	22,665
Capital assets-depreciable, net.....	71	3,757	2,754	215,044	148,171
Total Assets.....	<u>4,421,153</u>	<u>1,622,881</u>	<u>960,508</u>	<u>306,599</u>	<u>180,693</u>
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives..	—	4,591	—	78	—
Liabilities					
Accounts payable and accrued liabilities.....	22,156	3,582	63,799	1,847	550
Interest payable.....	2,746	17,057	—	1,288	90
Due to component units.....	—	—	11,194	—	—
Due to primary government.....	—	—	—	1,244	1
Unearned revenue.....	—	61,050	—	433	8
Advance from primary government.....	—	—	—	1,286	3,040
Deposits payable.....	—	3,532	—	—	—
Funds held for others.....	1,549,162	—	—	—	3
Hedging derivatives liability.....	—	4,591	—	78	—
Long-term liabilities:					
Due within one year.....	230,277	30,720	14	2,798	4,092
Due in more than one year.....	1,967,672	868,974	25	91,908	3,469
Total Liabilities.....	<u>3,772,013</u>	<u>989,506</u>	<u>75,032</u>	<u>100,882</u>	<u>11,253</u>
Deferred Inflows of Resources					
Deferred state aid.....	95,865	—	—	—	—
Net Position					
Net investment in capital assets.....	5,071	3,965	3,658	182,604	159,904
Restricted for:					
Expendable:					
Higher education.....	481,611	—	—	—	—
Health and human services.....	—	—	—	—	—
Economic development.....	—	620,584	—	3,849	—
Unrestricted.....	66,593	13,417	881,818	19,342	9,536
Total Net Position.....	<u>\$ 553,275</u>	<u>\$ 637,966</u>	<u>\$ 885,476</u>	<u>\$ 205,795</u>	<u>\$ 169,440</u>

North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	N.C. Health Insurance Risk Pool	Total
\$ 6,950	\$ 23,017	\$ 1,109	\$ 2,730	\$ 1,971	\$ 104,106
—	438	1,544	—	—	972,848
2,684	978	890	2,678	1,003	93,220
—	—	—	—	—	2,508
—	—	—	—	—	71,618
—	—	—	—	—	758
33	134	122	41	32	1,993
—	3,071	—	—	—	3,455,190
72,302	—	23	16,410	—	828,352
—	—	—	4,429	—	1,644,135
25,038	—	—	208	—	115,144
60,317	10,882	133	115,576	—	556,705
<u>167,324</u>	<u>38,520</u>	<u>3,821</u>	<u>142,072</u>	<u>3,006</u>	<u>7,846,577</u>
—	—	—	—	—	4,669
8,865	9,277	1,026	476	408	111,986
—	—	—	—	—	21,181
—	—	—	—	—	11,194
—	—	—	—	—	1,245
11,443	—	862	536	—	74,332
—	—	—	—	—	4,326
48	—	—	—	—	3,580
—	—	66	—	27	1,549,258
—	—	—	—	—	4,669
—	23	37	4,348	—	272,309
—	16	101	24,169	—	2,956,334
<u>20,356</u>	<u>9,316</u>	<u>2,092</u>	<u>29,529</u>	<u>435</u>	<u>5,010,414</u>
—	—	—	—	—	95,865
85,355	10,843	133	87,266	—	538,799
—	—	—	—	—	481,611
—	—	41	—	—	41
72,280	781	—	20,395	—	717,889
(10,667)	17,580	1,555	4,882	2,571	1,006,627
<u>\$ 146,968</u>	<u>\$ 29,204</u>	<u>\$ 1,729</u>	<u>\$ 112,543</u>	<u>\$ 2,571</u>	<u>\$ 2,744,967</u>

**COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS**

For the Fiscal Year Ended June 30, 2014

(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.....	\$ 249,120	\$ 404,281	\$ 52,343	\$ 53,412	\$ 9,111
Program revenues:					
Charges for services.....	63,056	392,452	5	39,389	2,886
Operating grants and contributions:					
State aid - program.....	105,482	52,410	—	—	—
Other operating grants and contributions...	79,107	—	124,701	128	36
Capital grants and contributions:					
State capital aid.....	—	—	—	—	—
Other capital grants and contributions.....	—	—	—	662	—
Net program (expense) revenue.....	<u>(1,475)</u>	<u>40,581</u>	<u>72,363</u>	<u>(13,233)</u>	<u>(6,189)</u>
Non-tax general revenues:					
State aid - general.....	—	8,308	—	—	1,000
Miscellaneous.....	—	—	—	—	—
Total non-tax general revenues.....	<u>—</u>	<u>8,308</u>	<u>—</u>	<u>—</u>	<u>1,000</u>
Change in net position.....	<u>(1,475)</u>	<u>48,889</u>	<u>72,363</u>	<u>(13,233)</u>	<u>(5,189)</u>
Net position — July 1, as restated.....	554,750	589,077	813,113	219,028	174,629
Net position — June 30.....	<u>\$ 553,275</u>	<u>\$ 637,966</u>	<u>\$ 885,476</u>	<u>\$ 205,795</u>	<u>\$ 169,440</u>

North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	N.C. Health Insurance Risk Pool	Total
\$ 36,087	\$ 15,635	\$ 99,611	\$ 12,585	\$ 49,519	\$ 981,704
16,964	305	—	4,986	26,686	546,729
—	—	90,652	—	15,208	263,752
810	1,605	3,340	7,648	18	217,393
1	—	—	—	—	1
—	—	—	2,021	—	2,683
(18,312)	(13,725)	(5,619)	2,070	(7,607)	48,854
—	12,600	4,915	—	—	26,823
1,197	155	216	202	—	1,770
1,197	12,755	5,131	202	—	28,593
(17,115)	(970)	(488)	2,272	(7,607)	77,447
164,083	30,174	2,217	110,271	10,178	2,667,520
<u>\$ 146,968</u>	<u>\$ 29,204</u>	<u>\$ 1,729</u>	<u>\$ 112,543</u>	<u>\$ 2,571</u>	<u>\$ 2,744,967</u>

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2014

Exhibit G-3

(Dollars in Thousands)

	State Health Plan
Cash Flows From Operating Activities	
Receipts from customers.....	\$ 2,943,012
Payments to suppliers.....	(222,707)
Payments to employees.....	(3,752)
Payments for prizes, benefits, and claims.....	(2,620,966)
Other payments.....	(160)
Net cash flows provided (used) by operating activities.....	<u>95,427</u>
Cash Provided From (Used For)	
Noncapital Financing Activities	
Grant receipts	<u>75,782</u>
Cash Provided From (Used For)	
Investment Activities	
Investment earnings.....	<u>3,861</u>
Net increase (decrease) in cash and cash equivalents.....	175,070
Cash and cash equivalents at July 1.....	<u>783,488</u>
Cash and cash equivalents at June 30.....	<u>\$ 958,558</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided From (Used For) Operating Activities	
Operating income.....	\$ 103,065
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation.....	4
(Increases) decreases in assets:	
Receivables.....	1,981
Increases (decreases) in liabilities:	
Accounts payable and accrued liabilities.....	(2,565)
Due to primary government.....	(3)
Compensated absences.....	53
Unearned revenue.....	5,547
Medical claims payable.....	<u>(12,655)</u>
Total cash provided from (used for) operations.....	<u>\$ 95,427</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 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Governmental Activities:					
Net investment in capital assets.....	\$ 42,197,283	\$ 40,394,260	\$ 38,705,712	\$ 37,338,472	\$ 35,658,528
Restricted.....	863,707	852,901	703,781	730,021	704,715
Unrestricted.....	<u>(2,181,244)</u>	<u>(3,042,454)</u>	<u>(3,594,082)</u>	<u>(3,792,148)</u>	<u>(4,160,273)</u>
Total Governmental Activities Net Position [1].....	<u>\$ 40,879,746</u>	<u>\$ 38,204,707</u>	<u>\$ 35,815,411</u>	<u>\$ 34,276,345</u>	<u>\$ 32,202,970</u>
Business-type Activities:					
Net investment in capital assets.....	\$ 433,740	\$ 410,031	\$ 391,831	\$ 294,172	\$ 173,375
Restricted.....	894	995	1,468	3,131	1,081,220
Unrestricted.....	<u>1,035,602</u>	<u>(250,294)</u>	<u>(661,669)</u>	<u>(766,888)</u>	<u>(1,626,663)</u>
Total Business-type Activities Net Position.....	<u>\$ 1,470,236</u>	<u>\$ 160,732</u>	<u>\$ (268,370)</u>	<u>\$ (469,585)</u>	<u>\$ (372,068)</u>
Primary Government:					
Net investment in capital assets.....	\$ 42,631,023	\$ 40,804,291	\$ 39,097,543	\$ 37,632,644	\$ 35,831,903
Restricted.....	864,601	853,896	705,249	733,152	1,785,935
Unrestricted.....	<u>(1,145,642)</u>	<u>(3,292,748)</u>	<u>(4,255,751)</u>	<u>(4,559,036)</u>	<u>(5,786,936)</u>
Total Primary Government Net Position.....	<u>\$ 42,349,982</u>	<u>\$ 38,365,439</u>	<u>\$ 35,547,041</u>	<u>\$ 33,806,760</u>	<u>\$ 31,830,902</u>

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

Table 1

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 34,101,091	\$ 30,984,578	\$ 29,715,168	\$ 28,052,926	\$ 26,434,617
714,014	877,915	1,094,352	890,602	1,314,397
(4,427,748)	(1,856,140)	(993,478)	(1,310,486)	(3,839,972)
<u>\$ 30,387,357</u>	<u>\$ 30,006,353</u>	<u>\$ 29,816,042</u>	<u>\$ 27,633,042</u>	<u>\$ 23,909,042</u>
\$ 73,924	\$ 32,063	\$ 26,673	\$ 26,975	\$ 44,007
1,003,613	1,773,018	1,612,943	1,286,477	970,615
(201,590)	91,219	74,860	75,108	76,988
<u>\$ 875,947</u>	<u>\$ 1,896,300</u>	<u>\$ 1,714,476</u>	<u>\$ 1,388,560</u>	<u>\$ 1,091,610</u>
\$ 34,175,015	\$ 31,016,641	\$ 29,741,841	\$ 28,079,901	\$ 26,478,624
1,717,627	2,650,933	2,707,295	2,177,079	2,285,012
(4,629,338)	(1,764,921)	(918,618)	(1,235,378)	(3,762,984)
<u>\$ 31,263,304</u>	<u>\$ 31,902,653</u>	<u>\$ 31,530,518</u>	<u>\$ 29,021,602</u>	<u>\$ 25,000,652</u>

CHANGES IN NET POSITION

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expenses					
Governmental Activities:					
General government.....	\$ 1,076,898	\$ 1,034,277	\$ 937,353	\$ 1,209,923	\$ 1,065,584
Primary and secondary education.....	9,772,994	9,830,464	9,760,909	10,024,775	9,830,183
Higher education.....	3,901,543	3,986,465	4,238,695	4,350,475	4,232,266
Health and human services.....	17,812,888	18,313,335	17,752,493	16,859,438	16,762,910
Economic development.....	420,464	595,248	667,106	744,703	916,224
Environment and natural resources.....	484,718	515,496	470,965	596,227	526,178
Public safety, corrections, and regulation.....	2,911,146	2,907,980	2,976,448	2,729,418	2,616,888
Transportation.....	2,607,663	2,490,991	2,400,599	2,177,062	1,998,234
Agriculture.....	191,242	187,608	188,985	114,275	118,847
Interest on long-term debt.....	216,521	233,606	282,542	306,696	281,058
Total Governmental Activities Expenses.....	<u>39,396,077</u>	<u>40,095,470</u>	<u>39,676,095</u>	<u>39,112,992</u>	<u>38,348,372</u>
Business-type Activities:					
Unemployment Compensation.....	700,190	2,496,445	3,283,900	4,420,762	5,568,561
N.C. State Lottery..... [2]	1,341,219	1,215,944	1,141,941	1,028,536	994,168
EPA Revolving Loan.....	27,789	23,711	14,026	42,897	30,940
N.C. Turnpike Authority..... [4]	88,278	95,897	17,565	4,940	4,990
Regulatory programs.....	75,734	76,447	69,980	80,454	67,330
Insurance programs.....	18,427	17,591	38,701	36,885	13,118
North Carolina State Fair.....	13,957	13,441	13,030	13,595	12,794
Other business-type activities.....	12,823	13,400	12,084	9,148	9,563
Total Business-type Activities Expenses.....	<u>2,278,417</u>	<u>3,952,876</u>	<u>4,591,227</u>	<u>5,637,217</u>	<u>6,701,464</u>
Total Primary Government Expenses.....	<u>\$ 41,674,494</u>	<u>\$ 44,048,346</u>	<u>\$ 44,267,322</u>	<u>\$ 44,750,209</u>	<u>\$ 45,049,836</u>
Program Revenues					
Governmental Activities:					
Charges for Services:					
Transportation.....	\$ 730,048	\$ 706,231	\$ 685,596	\$ 709,064	\$ 705,025
Public safety, corrections, and regulation.....	582,445	604,447	594,377	540,280	511,912
General government.....	242,809	228,054	218,011	195,286	356,602
Other activities.....	648,411	662,172	598,279	631,464	502,204
Operating grants and contributions.....	15,261,306	15,767,596	15,605,227	15,632,256	15,837,802
Capital grants and contributions.....	1,260,306	1,010,889	977,961	1,198,549	711,433
Total Governmental Activities Program Revenues.....	<u>18,725,325</u>	<u>18,979,389</u>	<u>18,679,451</u>	<u>18,906,899</u>	<u>18,624,978</u>
Business-type Activities:					
Charges for services:					
Unemployment Compensation.....	1,651,108	1,535,068	1,473,576	1,294,104	1,045,288
N.C. State Lottery..... [2]	1,844,636	1,695,009	1,601,837	1,464,639	1,424,458
EPA Revolving Loan.....	22,603	19,490	23,366	20,388	19,874
N.C. Turnpike Authority..... [4]	24,725	13,499	664	—	—
Regulatory programs.....	79,744	78,557	70,732	80,008	71,355
Insurance programs.....	10,780	19,275	17,547	16,046	16,320
North Carolina State Fair.....	14,828	14,506	14,470	14,915	12,639
Other business-type activities.....	10,781	10,681	10,578	10,771	8,678
Operating grants and contributions.....	346,581	1,423,525	1,966,023	2,998,116	3,251,109
Capital grants and contributions.....	11,942	21,109	15,436	11,687	7,771
Total Business-type Activities Program Revenues.....	<u>4,017,728</u>	<u>4,830,719</u>	<u>5,194,229</u>	<u>5,910,674</u>	<u>5,857,492</u>
Total Primary Government Program Revenues.....	<u>\$ 22,743,053</u>	<u>\$ 23,810,108</u>	<u>\$ 23,873,680</u>	<u>\$ 24,817,573</u>	<u>\$ 24,482,470</u>
Net (Expense) Revenue					
Governmental Activities.....	\$ (20,670,752)	\$ (21,116,081)	\$ (20,996,644)	\$ (20,206,093)	\$ (19,723,394)
Business-type Activities.....	1,739,311	877,843	603,002	273,457	(843,972)
Total Primary Government Net Expense.....	<u>\$ (18,931,441)</u>	<u>\$ (20,238,238)</u>	<u>\$ (20,393,642)</u>	<u>\$ (19,932,636)</u>	<u>\$ (20,567,366)</u>

Table 2

2009	2008	2007	2006	2005
\$ 1,429,407	\$ 1,232,088	\$ 1,264,132	\$ 1,039,513	\$ 917,209
10,079,691	10,631,920	9,126,169	8,215,445	7,699,208
3,951,862	4,207,410	4,500,010	3,472,024	3,576,384
16,172,213	14,951,585	14,117,426	13,491,119	13,375,794
636,431	746,471	624,106	647,434	625,561
717,666	753,909	672,726	676,049	570,241
2,741,308	2,627,007	2,465,974	2,304,900	2,125,385
138,007	1,941,207	2,019,942	1,781,865	1,795,490
110,268	119,297	88,970	112,467	81,628
289,211	304,020	273,123	264,287	249,433
<u>36,266,064</u>	<u>37,514,914</u>	<u>35,152,578</u>	<u>32,005,103</u>	<u>31,016,333</u>
3,255,448	1,002,866	864,981	849,945	824,934
877,403	712,718	559,373	153,125	—
7,868	12,454	14,228	11,414	7,170
3,847	—	—	—	—
37,644	34,791	31,144	28,526	25,974
14,986	17,556	23,892	16,051	13,580
13,803	12,828	11,433	10,497	10,759
7,324	6,364	5,686	10,255	9,753
<u>4,218,323</u>	<u>1,799,577</u>	<u>1,510,737</u>	<u>1,079,813</u>	<u>892,170</u>
<u>\$ 40,484,387</u>	<u>\$ 39,314,491</u>	<u>\$ 36,663,315</u>	<u>\$ 33,084,916</u>	<u>\$ 31,908,503</u>
\$ 740,353	\$ 777,059	\$ 782,405	\$ 725,311	\$ 588,357
510,159	501,837	429,824	411,188	378,059
329,507	365,920	480,378	339,053	202,514
535,100	536,419	467,769	512,449	503,552
14,005,529	12,301,356	12,026,012	11,503,844	11,380,864
1,035,742	826,646	758,910	914,090	1,011,451
<u>17,156,390</u>	<u>15,309,237</u>	<u>14,945,298</u>	<u>14,405,935</u>	<u>14,064,797</u>
1,076,294	1,091,856	1,099,959	1,101,357	1,062,549
1,288,102	1,053,131	866,195	216,906	—
17,370	17,297	16,400	15,237	14,078
—	—	—	—	—
33,982	37,163	29,347	33,550	32,223
17,208	16,991	13,901	14,860	15,993
12,520	15,029	11,617	12,581	12,227
8,365	6,498	5,887	7,973	8,906
1,110,849	83,695	106,000	64,085	54,760
41,398	6,589	142	258	452
<u>3,606,088</u>	<u>2,328,249</u>	<u>2,149,448</u>	<u>1,466,807</u>	<u>1,201,188</u>
<u>\$ 20,762,478</u>	<u>\$ 17,637,486</u>	<u>\$ 17,094,746</u>	<u>\$ 15,872,742</u>	<u>\$ 15,265,985</u>
\$ (19,109,674)	\$ (22,205,677)	\$ (20,207,280)	\$ (17,599,168)	\$ (16,951,536)
(612,235)	528,672	638,711	386,994	309,018
<u>\$ (19,721,909)</u>	<u>\$ (21,677,005)</u>	<u>\$ (19,568,569)</u>	<u>\$ (17,212,174)</u>	<u>\$ (16,642,518)</u>

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting or Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

[2] N.C. State Lottery established in 2006.

[3] Prior to 2007 tobacco products tax was included in other tax. A significant increase in the tobacco products tax rate determined the need to present tobacco products tax separately beginning 2007.

[4] 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 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Revenues and Other Changes in Net Position					
Governmental Activities:					
Taxes:					
Individual income tax..... [1]	\$ 10,576,575	\$ 11,113,597	\$ 10,459,307	\$ 10,020,535	\$ 9,345,441
Corporate income tax.....	1,318,091	1,194,850	1,233,989	1,132,931	1,252,800
Sales and use tax.....	5,839,362	5,556,484	5,530,046	6,172,377	5,916,119
Gasoline tax.....	1,907,803	1,889,439	1,892,163	1,675,476	1,557,430
Franchise tax.....	888,815	845,130	804,973	794,091	904,651
Highway use tax.....	596,801	555,581	506,211	469,811	439,506
Insurance tax.....	476,402	540,844	479,755	501,032	506,990
Beverage tax.....	342,784	330,918	322,190	311,809	295,383
Inheritance tax.....	-	113,721	57,839	24,184	71,731
Tobacco products tax..... [3]	273,426	287,340	293,597	291,699	278,406
Other taxes.....	348,938	305,726	294,516	301,217	321,945
Tobacco settlement.....	139,169	213,078	146,135	131,318	145,539
Unrestricted investment earnings.....	19,452	13,621	(56,055)	32,980	28,645
Miscellaneous.....	184,502	44,837	41,960	45,014	37,253
Contributions to permanent funds.....	3,861	2,834	3,297	3,188	3,101
Transfers.....	429,810	448,733	401,740	371,424	434,067
Total Governmental Activities.....	<u>23,345,791</u>	<u>23,456,733</u>	<u>22,411,663</u>	<u>22,279,086</u>	<u>21,539,007</u>
Business-type Activities:					
Miscellaneous.....	3	7	—	3	—
Transfers.....	(429,810)	(448,733)	(401,740)	(371,424)	(434,067)
Total Business-type Activities.....	<u>(429,807)</u>	<u>(448,726)</u>	<u>(401,740)</u>	<u>(371,421)</u>	<u>(434,067)</u>
Total Primary Government.....	<u>\$ 22,915,984</u>	<u>\$ 23,008,007</u>	<u>\$ 22,009,923</u>	<u>\$ 21,907,665</u>	<u>\$ 21,104,940</u>
Change in Net Position					
Governmental Activities.....	\$ 2,675,039	\$ 2,340,652	\$ 1,415,019	\$ 2,072,993	\$ 1,815,613
Business-type Activities.....	1,309,504	429,117	201,262	(97,964)	(1,278,039)
Total Primary Government.....	<u>\$ 3,984,543</u>	<u>\$ 2,769,769</u>	<u>\$ 1,616,281</u>	<u>\$ 1,975,029</u>	<u>\$ 537,574</u>

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 8,661,565	\$ 10,676,156	\$ 10,739,562	\$ 9,336,745	\$ 8,244,275
997,206	1,357,670	1,466,148	1,306,193	1,143,458
4,911,656	5,159,453	5,108,456	5,033,040	4,621,098
1,523,496	1,579,847	1,601,764	1,514,626	1,354,699
799,113	738,741	671,151	628,029	613,033
440,749	566,132	607,511	577,237	580,118
500,438	505,936	487,081	442,297	442,228
263,553	258,193	245,990	233,315	220,782
103,811	158,178	162,746	133,158	135,107
242,071	249,664	241,687	—	—
316,819	339,109	330,888	482,552	306,991
175,838	168,583	144,075	140,969	148,800
66,863	238,239	211,663	123,170	78,546
62,799	49,345	47,015	37,248	53,488
3,248	3,894	3,928	4,674	2,288
<u>422,399</u>	<u>346,848</u>	<u>312,810</u>	<u>67,978</u>	<u>(11,620)</u>
<u>19,491,624</u>	<u>22,395,988</u>	<u>22,382,475</u>	<u>20,061,231</u>	<u>17,933,291</u>
—	—	15	4	79
<u>(422,399)</u>	<u>(346,848)</u>	<u>(312,810)</u>	<u>(67,978)</u>	<u>11,620</u>
<u>(422,399)</u>	<u>(346,848)</u>	<u>(312,795)</u>	<u>(67,974)</u>	<u>11,699</u>
<u>\$ 19,069,225</u>	<u>\$ 22,049,140</u>	<u>\$ 22,069,680</u>	<u>\$ 19,993,257</u>	<u>\$ 17,944,990</u>
\$ 381,950	\$ 190,311	\$ 2,175,195	\$ 2,462,063	\$ 981,755
<u>(1,034,634)</u>	<u>181,824</u>	<u>325,916</u>	<u>319,020</u>	<u>320,717</u>
<u>\$ (652,684)</u>	<u>\$ 372,135</u>	<u>\$ 2,501,111</u>	<u>\$ 2,781,083</u>	<u>\$ 1,302,472</u>

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
				[2]		
General Fund						
Reserved.....	\$ —	\$ —	\$ —	\$ —	\$ 224,358	\$ 189,288
Unreserved.....	—	—	—	—	(338,738)	(966,861)
Nonspendable.....	73,958	75,153	81,395	93,482	—	—
Restricted.....	83,885	130,411	140,032	81,815	—	—
Committed.....	907,176	910,629	889,584	1,115,156	—	—
Assigned.....	283,280	30,957	—	—	—	—
Unassigned.....	195,237	150,713	(62,042)	(107,348)	—	—
Total General Fund [1].....	<u>\$ 1,543,536</u>	<u>\$ 1,297,863</u>	<u>\$ 1,048,969</u>	<u>\$ 1,183,105</u>	<u>\$ (114,380)</u>	<u>\$ (777,573)</u>
All Other Governmental Funds						
Reserved.....	\$ —	\$ —	\$ —	\$ —	\$ 994,418	\$ 1,209,650
Unreserved, reported in:						
Special revenue funds.....	—	—	—	—	2,321,665	2,337,370
Capital projects funds.....	—	—	—	—	10,311	(2,738)
Permanent funds.....	—	—	—	—	7,141	1,907
Nonspendable.....	216,528	210,307	218,674	198,830	—	—
Restricted.....	768,448	923,253	807,205	896,515	—	—
Committed.....	1,713,790	1,409,097	1,402,286	1,343,103	—	—
Assigned.....	—	778	496	—	—	—
Unassigned.....	—	—	(1,311)	(1,627)	—	—
Total all other governmental funds....	<u>\$ 2,698,766</u>	<u>\$ 2,543,435</u>	<u>\$ 2,427,350</u>	<u>\$ 2,436,821</u>	<u>\$ 3,333,535</u>	<u>\$ 3,546,189</u>

Table 3

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 172,909	\$ 208,932	\$ 155,948	\$ 172,633
1,505,230	2,397,786	1,810,452	(251,442)
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ 1,678,139</u>	<u>\$ 2,606,718</u>	<u>\$ 1,966,400</u>	<u>\$ (78,809)</u>
\$ 1,182,723	\$ 1,014,757	\$ 951,701	\$ 911,966
2,517,529	2,524,643	2,204,146	2,170,533
280,939	224,991	115,060	44,237
2,312	1,598	1,518	2,645
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ 3,983,503</u>	<u>\$ 3,765,989</u>	<u>\$ 3,272,425</u>	<u>\$ 3,129,381</u>

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

[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.

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	2014	2013	2012	2011	2010
<u>Revenues</u>					
Taxes.....	[1] \$ 22,605,977	\$ 22,769,317	\$ 21,816,945	\$ 21,689,379	\$ 20,866,244
Federal funds.....	15,967,504	16,161,532	15,626,696	14,215,501	13,688,504
Local funds.....	173,727	186,327	188,405	186,944	218,162
Investment earnings.....	76,144	41,259	50,612	100,104	198,633
Interest earnings on loans.....	1,797	3,684	3,347	4,104	4,543
Sales and services.....	312,872	304,179	292,705	276,663	263,010
Rental and lease of property.....	23,791	27,559	26,574	25,165	22,122
Fees, licenses and fines.....	1,597,517	1,574,727	1,547,973	1,496,606	1,553,923
Tobacco settlement.....	139,937	211,162	140,979	138,256	146,358
Contributions, gifts, and grants.....	99,672	74,857	65,954	109,170	85,868
Funds escheated.....	106,760	112,671	68,207	111,481	70,381
Federal recovery funds.....	236,869	273,192	658,570	2,265,393	2,391,851
Miscellaneous.....	321,281	184,763	146,204	158,945	164,685
Total revenues.....	<u>41,663,848</u>	<u>41,925,229</u>	<u>40,633,171</u>	<u>40,777,711</u>	<u>39,674,284</u>
<u>Expenditures</u>					
Current:					
General government.....	1,036,518	986,897	901,654	1,000,101	962,187
Primary and secondary education.....	9,749,844	9,818,572	9,738,102	10,000,438	9,850,462
Higher education.....	3,900,386	3,986,575	4,237,649	4,350,683	4,225,806
Health and human services.....	17,901,879	18,416,229	17,854,993	16,914,978	16,816,099
Economic development.....	442,364	571,037	667,057	741,447	915,038
Environment and natural resources.....	456,099	455,894	429,882	603,112	554,628
Public safety, corrections, and regulation.....	2,896,879	2,899,287	2,937,742	2,751,665	2,659,683
Transportation.....	4,152,663	3,992,200	3,801,196	3,660,069	3,253,258
Agriculture.....	179,848	171,196	181,387	113,153	112,902
Capital outlay.....	127,634	182,107	231,688	364,121	341,058
Debt service:					
Principal retirement.....	[2] 553,016	1,261,685	514,195	1,026,602	498,563
Interest and fees.....	[2] 331,451	461,739	346,540	393,432	322,287
Debt issuance costs.....	1,193	6,605	7,074	4,178	1,310
Total expenditures.....	<u>41,729,774</u>	<u>43,210,023</u>	<u>41,849,159</u>	<u>41,923,979</u>	<u>40,513,281</u>
Excess revenues over (under) expenditures.....	<u>(65,926)</u>	<u>(1,284,794)</u>	<u>(1,215,988)</u>	<u>(1,146,268)</u>	<u>(838,997)</u>
<u>Other Financing Sources (Uses)</u>					
Bonds issued.....	—	—	—	—	487,700
Special Indebtedness issued.....	—	250,000	400,000	500,000	—
GARVEE bonds issued.....	—	—	179,540	—	242,250
Refunding bonds issued.....	506,255	1,320,970	367,350	774,745	371,920
Other debt issued.....	6,733	9,380	15,825	—	9,098
Premium on debt issued.....	98,789	284,428	131,892	191,035	140,876
Payments to refunded bond escrow agent.....	(603,550)	(748,022)	(428,830)	(370,982)	(435,870)
Capital leases.....	—	—	—	—	—
Sale of capital assets.....	14,939	12,939	12,889	12,118	11,994
Insurance recoveries.....	15,975	9,925	16,444	7,319	7,414
Transfers in.....	1,233,471	1,112,704	1,115,417	1,131,568	2,330,816
Transfers out.....	(805,682)	(651,195)	(715,002)	(698,321)	(1,876,502)
Total other financing sources (uses).....	<u>466,930</u>	<u>1,601,129</u>	<u>1,095,525</u>	<u>1,547,482</u>	<u>1,289,696</u>
Net change in fund balances.....	<u>\$ 401,004</u>	<u>\$ 316,335</u>	<u>\$ (120,463)</u>	<u>\$ 401,214</u>	<u>\$ 450,699</u>
Debt service as a percentage of noncapital expenditures..	2.25%	4.24%	2.18%	3.61%	2.14%

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

Table 4

2009	2008	2007	2006	2005
\$ 18,752,674	\$ 21,583,521	\$ 21,660,719	\$ 19,848,465	\$ 17,618,730
13,387,611	12,096,354	11,519,927	11,315,722	11,287,454
349,303	527,325	725,542	610,501	767,067
95,288	620,829	669,297	384,014	292,406
4,989	5,156	5,639	5,405	5,664
279,025	285,848	264,081	260,538	235,894
25,398	27,737	28,722	25,982	38,585
1,602,471	1,593,893	1,525,928	1,405,569	1,218,431
175,187	159,954	142,825	136,453	148,641
137,537	140,575	155,958	118,936	108,450
27,399	74,743	214,500	108,075	49,684
1,164,674	N/A	N/A	N/A	N/A
184,839	167,449	122,161	161,052	146,529
<u>36,186,395</u>	<u>37,283,384</u>	<u>37,035,299</u>	<u>34,380,712</u>	<u>31,917,535</u>
1,299,637	1,167,090	1,102,512	963,899	754,175
10,111,797	9,879,602	9,087,905	8,211,998	7,713,265
3,951,689	4,207,164	4,405,767	3,471,604	3,576,766
16,222,160	14,918,068	14,203,474	13,318,071	13,376,364
634,369	747,728	623,038	643,510	622,000
699,273	689,119	662,296	626,442	579,853
2,681,833	2,629,567	2,467,763	2,291,596	2,123,837
3,266,494	3,473,718	3,296,301	3,219,549	3,511,161
111,506	117,380	92,062	110,626	82,508
369,326	346,764	451,716	270,882	313,932
474,323	427,550	417,807	367,946	303,818
326,287	329,813	306,410	288,088	241,936
3,031	2,141	2,456	1,645	7,454
<u>40,151,725</u>	<u>38,935,704</u>	<u>37,119,507</u>	<u>33,785,856</u>	<u>33,207,069</u>
<u>(3,965,330)</u>	<u>(1,652,320)</u>	<u>(84,208)</u>	<u>594,856</u>	<u>(1,289,534)</u>
—	—	502,745	370,000	1,075,140
600,000	275,000	300,000	—	188,385
—	287,565	—	—	—
—	—	84,385	—	959,665
1,533	7,425	2,897	30,688	12,686
31,371	21,843	40,867	16,338	210,116
—	—	(85,519)	—	(1,059,663)
—	—	799	26,745	212
13,079	29,570	15,898	20,131	14,674
8,568	7,317	5,700	6,537	—
2,727,741	2,567,141	2,340,937	1,784,222	1,754,448
<u>(2,309,101)</u>	<u>(2,223,438)</u>	<u>(2,030,162)</u>	<u>(1,718,585)</u>	<u>(1,760,801)</u>
<u>1,073,191</u>	<u>972,423</u>	<u>1,178,547</u>	<u>536,076</u>	<u>1,394,862</u>
<u>\$ (2,892,139)</u>	<u>\$ (679,897)</u>	<u>\$ 1,094,339</u>	<u>\$ 1,130,932</u>	<u>\$ 105,328</u>
2.12%	2.07%	2.06%	2.08%	1.78%

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

[2] 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%.

N/A = Data not available

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2005-2014

(Dollars in Thousands)

		<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
TAX REVENUES					[3]	
Individual income tax.....	[1]	\$ 10,576,575	\$ 11,111,462	\$ 10,457,217	\$ 10,018,039	\$ 9,343,303
Corporate income tax.....		1,331,934	1,224,702	1,194,865	1,139,584	1,245,515
Sales and use tax.....		5,838,079	5,554,065	5,516,304	6,133,915	5,871,166
Franchise tax.....		890,692	857,867	797,596	793,094	904,959
Beverage tax.....		342,955	330,711	322,194	311,814	295,349
Insurance tax.....		476,402	521,510	463,574	485,989	495,059
Piped natural gas.....		55,661	47,145	45,328	54,868	59,693
Inheritance tax.....		19,296	111,510	58,238	23,880	71,901
Tobacco products tax.....		277,736	283,629	293,286	290,743	278,296
License tax.....		47,612	44,378	45,577	48,924	41,338
Real estate conveyance tax.....		50,424	—	—	—	—
Gift tax.....		526	829	181	2,973	12,036
Manufacturing tax.....		36,743	36,447	36,321	33,013	32,125
Other taxes.....		36,390	27,998	25,118	26,822	23,943
Total tax revenues.....		19,981,025	20,152,253	19,255,799	19,363,658	18,674,683
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues.....		14,526,468	14,878,307	14,433,383	12,828,192	12,825,403
Federal recovery funds.....		151,757	182,756	421,815	1,791,264	1,961,425
		14,678,225	15,061,063	14,855,198	14,619,456	14,786,828
Local Funds:						
Departmental revenues.....		144,826	158,413	164,679	149,545	153,234
Investment Earnings:						
Income from General Fund investments.....		17,458	12,991	13,533	30,925	36,877
Income from securities lending.....	[2]	6,853	9,125	(1,590)	9,527	49,733
Departmental revenues.....		2,481	2,597	4,014	7,295	3,264
Other investment earnings.....		—	—	—	—	—
		26,792	24,713	15,957	47,747	89,874
Interest Earnings on Loans:						
Departmental revenues.....		1,098	2,883	2,445	3,133	202
Sales and Services:						
Departmental revenues.....		158,684	140,603	137,527	130,166	97,323
Other non-tax revenues.....		87	80	92	112	116
		158,771	140,683	137,619	130,278	97,439
Rental and Lease of Property:						
Proceeds from rental and lease of property.....		117	94	85	88	67
Departmental revenues.....		9,966	10,210	10,348	11,523	8,810
		10,083	10,304	10,433	11,611	8,877
Fees, Licenses and Fines:						
Court fines and fees.....		236,790	250,789	258,968	225,710	216,772
Secretary of State service fees.....		94,923	89,994	85,062	76,451	81,221
Banking and investment fees.....		7,568	6,107	6,690	6,092	5,955
Self insurer fees (Industrial Commission).....		15,151	15,138	15,169	15,176	15,497
Probation supervision fees.....		14,579	15,566	16,134	15,000	11,892
Department of Insurance fees.....		40,603	39,224	39,100	38,174	38,271
DWI service and restoration fees.....		8,033	8,590	8,946	8,928	7,638
Departmental revenues.....		287,233	288,922	252,398	217,191	212,260
Fines from tax collection activity.....		—	—	—	—	78,090
Other non-tax revenues.....		8,895	9,696	8,086	4,750	6,912
		713,775	724,026	690,553	607,472	674,508
Tobacco settlement:						
Tobacco settlement.....		139,937	211,162	140,979	138,256	146,358
Contributions, Gifts and Grants:						
Departmental revenues.....		26,441	21,487	20,452	22,591	20,391
Other non-tax revenues.....		—	—	—	—	—
		26,441	21,487	20,452	22,591	20,391
Miscellaneous:						
Local sales and use tax administration.....		9,388	8,942	12,177	13,692	14,603
Sales tax refunds.....		3,716	2,826	3,555	2,432	2,134
Departmental revenues.....		214,371	104,432	103,317	101,336	117,511
Other non-tax revenue.....		66,643	9,865	306	4,871	6,517
		294,118	126,065	119,355	122,331	140,765
Total non-tax revenues.....		16,194,066	16,480,799	16,157,670	15,852,420	16,118,476
Total Revenues.....	[1,2]	\$ 36,175,091	\$ 36,633,052	\$ 35,413,469	\$ 35,216,078	\$ 34,793,159

Table 5

2009	2008	2007	2006	2005
\$ 8,658,635	\$ 10,672,362	\$ 10,737,494	\$ 9,493,714	\$ 8,206,026
941,509	1,265,654	1,357,454	1,208,356	1,065,374
4,872,318	5,125,674	5,078,997	5,007,567	4,587,542
797,079	739,947	669,235	628,665	613,093
263,553	257,393	245,430	232,987	220,782
483,756	492,699	475,546	431,729	431,664
59,490	58,413	61,345	58,397	60,739
104,266	158,789	161,604	133,248	134,419
242,071	249,664	241,687	187,566	43,361
37,716	55,293	48,137	46,035	44,219
—	—	—	—	—
12,294	17,361	15,669	16,251	18,924
32,044	37,661	39,132	11,992	—
21,625	16,623	16,640	15,579	14,114
<u>16,526,356</u>	<u>19,147,533</u>	<u>19,148,370</u>	<u>17,472,086</u>	<u>15,440,257</u>
11,970,322	10,843,765	10,312,318	9,905,879	9,755,067
1,155,174	—	—	—	—
<u>13,125,496</u>	<u>10,843,765</u>	<u>10,312,318</u>	<u>9,905,879</u>	<u>9,755,067</u>
304,270	486,536	665,532	574,300	731,368
103,703	234,478	208,955	122,405	75,669
(46,275)	143,487	216,072	133,098	48,463
4,788	7,829	8,059	7,357	8,539
3	39	66	44	14
<u>62,219</u>	<u>385,833</u>	<u>433,152</u>	<u>262,904</u>	<u>132,685</u>
261	113	399	—	—
104,925	102,307	94,664	94,994	85,592
143	138	171	184	168
<u>105,068</u>	<u>102,445</u>	<u>94,835</u>	<u>95,178</u>	<u>85,760</u>
83	98	41	57	4,304
8,773	7,908	8,392	7,885	7,072
<u>8,856</u>	<u>8,006</u>	<u>8,433</u>	<u>7,942</u>	<u>11,376</u>
190,995	198,520	159,583	158,646	142,798
64,202	62,035	58,046	55,976	46,975
5,709	5,862	5,466	5,386	5,165
15,230	14,791	14,292	14,269	14,128
16,758	16,892	16,629	16,471	16,476
43,965	42,872	27,991	25,990	24,526
9,310	9,441	8,782	8,420	8,398
184,952	164,813	160,006	157,024	200,452
85,135	93,181	69,758	53,663	—
5,340	6,583	4,944	5,173	3,818
<u>621,596</u>	<u>614,990</u>	<u>525,497</u>	<u>501,018</u>	<u>462,736</u>
175,187	159,954	142,825	136,453	148,641
16,179	16,054	17,207	17,632	34,375
—	—	—	1	105
<u>16,179</u>	<u>16,054</u>	<u>17,207</u>	<u>17,633</u>	<u>34,480</u>
15,613	16,982	16,979	14,356	13,932
1,906	3,303	4,124	3,014	10,253
119,107	106,517	56,733	113,171	84,927
22,220	1,566	1,508	1,302	1,253
<u>158,846</u>	<u>128,368</u>	<u>79,344</u>	<u>131,843</u>	<u>110,365</u>
<u>14,577,978</u>	<u>12,746,064</u>	<u>12,279,542</u>	<u>11,633,150</u>	<u>11,472,478</u>
<u>\$ 31,104,334</u>	<u>\$ 31,893,597</u>	<u>\$ 31,427,912</u>	<u>\$ 29,105,236</u>	<u>\$ 26,912,735</u>

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

[2] 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.

[3] 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.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2003-2012

(Dollars in thousands)

	2012	2011	2010	2009	2008
Manufacturing.....	\$ 31,557,791	\$ 30,630,827	\$ 29,899,020	\$ 29,507,386	\$ 32,871,109
Retail trade.....	16,543,538	15,726,256	15,506,588	15,147,048	15,816,802
Services.....	91,275,829	85,394,022	81,644,617	78,845,349	79,680,495
Agricultural, forestry, fishing, etc.....	752,040	693,508	721,084	625,515	608,534
Government.....	53,507,670	52,937,347	53,679,181	52,009,813	49,971,175
Construction.....	13,424,428	12,710,118	12,576,058	13,360,791	15,728,053
Wholesale trade.....	13,750,578	12,993,684	12,281,182	11,904,361	12,732,602
Transportation and warehousing.....	7,156,040	6,755,478	6,344,855	6,294,167	6,709,847
Finance and insurance.....	17,432,307	17,188,287	19,674,704	16,311,534	15,355,265
Mining.....	240,755	230,010	196,257	242,909	302,581
Utilities.....	1,610,865	1,579,610	1,513,730	1,390,004	1,441,857
Information.....	6,315,066	5,869,956	5,658,771	5,885,149	6,040,398
Real estate and rental and leasing.....	3,973,278	3,604,588	2,960,380	3,012,295	3,196,971
Other.....	112,163,323	106,141,307	96,331,041	95,576,910	92,161,384
Total.....	\$ 369,703,508	\$ 352,454,998	\$ 338,987,468	\$ 330,113,231	\$ 332,617,073
Average effective rate [1]:					
Individual income tax.....	2.8%	2.8%	2.8%	2.6%	3.2%

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

Source: Bureau of Economic Analysis (Data for 2013 & 2014 is not available.)

Table 6

2007	2006	2005	2004	2003
\$ 33,708,273	\$ 32,834,330	\$ 32,231,012	\$ 31,858,045	\$ 31,279,342
16,308,067	15,769,434	14,978,924	14,235,626	13,818,683
75,785,060	70,966,821	64,359,107	60,604,932	56,206,927
624,878	637,024	575,980	593,336	544,737
46,654,860	43,267,164	41,193,447	38,580,008	35,855,665
17,056,334	16,656,582	14,876,177	13,708,560	12,843,141
12,776,205	11,871,588	11,070,441	10,438,631	9,611,693
6,829,270	6,668,868	6,444,942	6,291,708	5,933,108
14,829,199	14,493,453	12,825,445	11,519,173	10,828,196
366,745	365,036	301,933	250,574	219,159
1,343,193	1,342,792	1,246,753	1,289,055	1,228,403
5,674,632	5,421,835	5,376,938	5,203,187	4,981,041
2,972,196	3,930,268	3,483,702	3,410,910	3,322,028
84,921,181	77,273,021	72,234,245	65,669,468	58,794,333
\$ 319,850,093	\$ 301,498,216	\$ 281,199,046	\$ 263,653,213	\$ 245,466,456
3.4%	3.1%	2.9%	2.8%	2.9%

INDIVIDUAL INCOME TAX FILERS AND LIABILITY - CALENDAR YEARS 2003 AND 2012
INDIVIDUAL INCOME TAX RATES- CALENDAR YEARS 2004-2013

North Carolina Taxable Income	Calendar Year 2012				Calendar Year 2003			
	Number of Returns	% of Total	Tax Liability	% of Total	Number of Returns	% of Total	Tax Liability	% of Total
0 to \$15,000.....	2,185,840	50.9%	\$ 402,108,549	4.0%	1,888,477	52.3%	\$ 438,032,623	6.4%
\$15,001 to \$25,000.....	543,523	12.6%	604,513,009	6.0%	500,101	13.9%	575,108,293	8.4%
\$25,001 to \$50,000.....	744,455	17.3%	1,657,281,179	16.5%	670,880	18.6%	1,490,959,873	21.7%
\$50,001 to \$75,000.....	354,829	8.3%	1,397,114,355	13.9%	282,874	7.8%	1,106,486,473	16.1%
\$75,001 to \$100,000.....	181,081	4.2%	1,033,430,552	10.3%	114,125	3.2%	649,353,208	9.5%
\$100,001 to \$200,000.....	206,326	4.8%	1,896,814,727	18.9%	109,796	3.0%	1,001,045,927	14.6%
\$200,001 and up.....	79,436	1.9%	3,045,206,198	30.4%	43,088	1.2%	1,602,318,947	23.3%
	<u>4,295,490</u>	<u>100.0%</u>	<u>\$ 10,036,468,569</u>	<u>100.0%</u>	<u>3,609,341</u>	<u>100.0%</u>	<u>\$ 6,863,305,344</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 2012 is the most recent year for which data are available.

Individual Income Tax Rates - Last 10 Years

Calendar Years 2004-2006				
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 8.0%, 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	
Tax rate	6%	7%	up to \$250,000 7.75% > 250,000	2% 3%
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000	
Tax rate	6%	7%	up to \$125,000 7.75% >125,000	2% 3%
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000	
Tax rate	6%	7%	up to \$200,000 7.75% >200,000	2% 3%
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000	
Tax rate	6%	7%	up to \$150,000 7.75% >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%	

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.

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
General merchandise.....	\$ 30,122,560	\$ 29,092,064	\$ 28,488,712	\$ 26,997,731	\$ 26,700,373
Food.....	22,892,242	21,961,810	21,188,038	20,063,710	19,986,254
Lumber & building material.....	11,754,511	11,034,483	10,936,526	9,980,618	9,896,788
Automotive.....	6,272,460	5,855,515	5,798,630	5,592,481	5,371,476
2%, 2.5%, 3% and 4.75% tax group...	456,127	460,461	447,963	429,092	411,092
Furniture.....	3,887,077	3,739,815	3,599,804	3,416,656	3,442,183
Apparel.....	4,707,181	4,554,679	4,343,728	3,962,251	3,756,305
Unclassified.....	30,258,424	28,668,485	28,026,651	26,316,563	25,056,266
Total.....	<u>\$ 110,350,582</u>	<u>\$ 105,367,312</u>	<u>\$ 102,830,052</u>	<u>\$ 96,759,102</u>	<u>\$ 94,620,737</u>
Direct sales tax rate	4.75%	4.75%	4.75%	5.75%	5.75%

2%, 2.5%, 3% and 4.75% tax group includes manufactured homes, airplanes, boats, and modular homes. 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

2009	2008	2007	2006	2005
\$ 27,281,044	\$ 27,545,474	\$ 27,814,179	\$ 24,141,458	\$ 36,237,522
19,982,767	20,427,943	18,856,362	17,333,935	27,537,881
11,728,029	15,125,717	15,625,168	14,749,083	16,234,363
5,365,726	5,782,027	6,138,450	5,416,622	18,109,374
653,686	878,522	1,350,932	4,551,097	5,467,429
3,854,662	4,746,011	4,733,484	4,387,923	5,528,144
3,628,009	3,901,540	3,753,902	3,481,573	3,622,110
27,197,294	29,529,959	28,314,743	27,490,165	40,846,913
<u>\$ 99,691,217</u>	<u>\$ 107,937,193</u>	<u>\$ 106,587,220</u>	<u>\$ 101,551,856</u>	<u>\$ 153,583,736</u>
4.50%	4.25%	4.25%	4.50%	4.50%

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2005 & 2014

	2014		2005	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise.....	\$ 1,435,156	23.28%	\$ 987,088	20.36%
Food.....	1,094,731	17.76%	725,612	14.96%
Utilities.....	908,938	14.75%	669,470	13.80%
Lumber & building material.....	559,345	9.07%	594,459	12.25%
Automotive.....	313,355	5.08%	254,508	5.25%
Furniture.....	185,386	3.01%	181,087	3.73%
Apparel.....	224,341	3.65%	142,767	2.94%
Farming.....	—	0.00%	46,272	0.95%
Unclassified.....	1,442,585	23.40%	1,249,761	25.76%
Total.....	\$ 6,163,837	100.00%	\$ 4,851,024	100.00%
General state sales tax rate.....	4.75%		4.50%	

Recent Significant Sales Tax Rate and Base Changes

2005-06	<p>Effective <u>October 1, 2005</u>, all sales of candy became subject to the combined general State and county tax rate.</p> <p>Effective <u>October 1, 2005</u>, the sales and use tax imposed on telecommunications, direct-to-home satellite services, and spirituous liquor increased to 7%.</p> <p>Effective <u>January 1, 2006</u>, a 7% State sales and use tax was imposed on cable services, and satellite digital audio radio became subject to both the State general rate of tax and local rates.</p>
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%. 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%. 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 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

<p>2009-10</p>	<p>Effective <u>July 1, 2009</u>, tax on electricity sold to farmers/manufacturers decreased from 1.4% to 0.8%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.5% to 0.3%. Effective <u>August 7, 2009</u>, online sales- remote sales:certain click-through transactions subject to tax. Effective <u>August 27, 2009</u>, authorizing legislation for regional transportation authorities and counties to impose a local government sales and use tax rate of 0.25% or 0.5% for public transportation. Effective <u>September 1, 2009</u>, State general tax rate raised from 4.5% to 5.5%. Combined general rate raised from 7% to 8%. (Temporary additional 1% State general sales and use tax rate, scheduled to be repealed for sales made on or after July 1, 2011). Effective <u>October 1, 2009</u>, State general tax raised from 5.5% to 5.75%. Local sales tax rate under Article 44 (0.25%) repealed. Exemption for aircraft simulators purchased by interstate passenger air carriers expanded to include all purchasers of such equipment. Effective <u>January 1, 2010</u>, sales tax on online purchases - certain digital property, magazine subscriptions, computer software subject to tax. Exemption for computer software or digital property that becomes a component part.</p>
<p>2010-11</p>	<p>Effective <u>July 1, 2010</u>, tax on electricity sold to farmers/manufacturers decreased from 0.8% to 0%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.3% to 0%. Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Effective <u>July 10, 2010</u>, refund provision to joint governmental agency created to operate a cable television system for purchases made on/after July 1, 2007 and before June 30, 2010. Effective <u>January 1, 2011</u>, sales tax law on accommodations was modernized to classify facilitators who assist accommodation owners with rentals as retailers subject to sales and use and room occupancy taxes. Facilitation or similar fees are includable in the sales price. Effective <u>June 18, 2011</u>, refund provision to joint governmental agency created to operate a cable television system extended to purchases made on/after July 1, 2007 and before June 30, 2011 (previously before June 30, 2010).</p>
<p>2011-12</p>	<p>Effective <u>July 1, 2011</u>, additional 1% State General sales and use tax rate expired. This also has the effect of reducing the State combined general rate from 8% to 7%. Effective <u>June 20, 2012</u>, refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to taxpayers engaged in analytical services (the greater of 50% of eligible amount of tax paid on tpp consumed or transformed in analytical services or 50% of the amount of tax paid on medical reagents) was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to certain industrial facilities for tax paid on building materials, building supplies, fixtures, and equipment installed in the construction of the facility was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013).</p>
<p>2013-14</p>	<p>Effective <u>January 1, 2014</u>, the sale of a modular home is subject to the State general rate of 4.75% (no local rates apply) (transaction previously subject to the State 2.5% preferential rate with 20% of the proceeds shared with local governments). The sale of a manufactured home is subject to the State general rate of 4.75% (no local rates apply) (transaction previously subject to the State 2% preferential rate (maximum tax \$300 per article)). Service contracts (warranty agreements, maintenance agreements, repair contracts, or similar agreements or contracts by which the seller agrees to maintain or repair tangible personal property) are subject to the State general rate of 4.75% (applicable local rates apply). Previously, combined State/local use tax rates assessed on parts applied for certain transactions. Admission charges to the following entertainment activities are subject to the State general rate of 4.75% plus applicable local rates: a live performance or live event, a motion picture or film, a museum, a cultural site, a garden, an exhibit, a show, or a similar attraction or a guided tour at any of these attractions. The following events are exempted from this tax: school sponsored events held at an elementary or secondary school, certain commercial agricultural fairs, certain nonprofit-sponsored festivals or other recreational/entertainment activity, certain youth athletic contests, and certain State attractions. Previously, motion picture show admission charges were subject to a 1% gross receipts privilege tax and certain other amusements were subject to a 3% gross receipts privilege tax. Newspaper street vendors and sales by newspaper vending machines, nutritional supplements sold by a chiropractic physician at a chiropractic office to a patient as part of the patient's plan of treatment, and food and prepared meals sold by institutions of higher education (private and public) are subject to the State general rate of 4.75% plus applicable local rates (previously exempt). Effective <u>June 1, 2014</u>, gross receipts derived from the rental of a private residence, cottage, or similar accommodation listed with a real estate broker or agent where a person occupies or has the right to occupy such on or after June 1, 2014, are subject to the 4.75% general State and applicable local and transit rates of sales and use tax and any local occupancy tax imposed by a city or county. Previously, the taxation of gross receipts derived from the rental of a private residence, cottage, or similar accommodation listed with a real estate broker or agent for fewer than 15 days was deemed exempt under provisions of the Important Notice: Tax on Accommodations (Revised June 14, 2002).</p>

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Governmental activities:					
General obligation bonds.....	\$ 3,607,100	\$ 3,999,580	\$ 4,470,500	\$ 4,846,205	\$ 5,270,660
Lease-purchase revenue bonds.....	4,125	20,915	30,915	205,045	215,045
Certificates of participation.....	247,615	508,500	557,895	824,860	872,600
Limited obligation bonds.....	2,132,085	1,993,740	1,795,090	1,060,745	580,705
GARVEE bonds.....	395,275	454,820	512,085	373,080	434,825
Issuance discount.....	—	—	—	—	—
Issuance premium.....	558,928	623,105	485,615	441,218	353,147
Notes payable.....	39,738	39,312	35,691	25,038	30,642
Capital leases payable.....	17,869	19,375	21,282	22,669	22,815
Total Governmental Activities.....	<u>7,002,735</u>	<u>7,659,347</u>	<u>7,909,073</u>	<u>7,798,860</u>	<u>7,780,439</u>
Business-type activities:					
Revenue bonds..... (1), (2)	1,039,308	1,058,458	1,081,183	856,678	622,758
GARVEE bonds..... (2)	145,535	145,535	145,535	—	—
Issuance discount.....	(1,780)	(1,896)	(2,012)	(2,128)	(2,244)
Issuance premium.....	25,932	28,661	31,507	—	—
Notes payable..... (1), (2)	376,869	377,466	286,818	269,030	68,800
Total Business-type Activities.....	<u>1,585,864</u>	<u>1,608,224</u>	<u>1,543,031</u>	<u>1,123,580</u>	<u>689,314</u>
Total Primary Government.....	<u>\$ 8,588,599</u>	<u>\$ 9,267,571</u>	<u>\$ 9,452,104</u>	<u>\$ 8,922,440</u>	<u>\$ 8,469,753</u>
Debt as a Percentage of Personal Income....	2.20%	2.45%	2.56%	2.53%	2.50%
Amount of Debt per Capita.....	\$ 864	\$ 941	\$ 970	925	\$ 888

Notes:

(1) The Town of Butner's Enterprise Funds related to water and sewer was sold in 2007 and changed its Enterprise Funds functions in 2006.

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

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 5,169,265	\$ 5,533,760	\$ 5,902,330	\$ 5,738,815	\$ 5,698,535
225,045	235,045	245,045	255,045	265,045
919,585	965,880	727,640	454,060	475,170
600,000	—	—	—	—
241,820	287,565	—	—	—
—	(126)	(369)	(721)	(1,175)
275,131	287,272	309,261	313,253	339,004
27,663	33,187	37,276	60,841	34,007
23,833	24,659	25,740	26,879	330
<u>7,482,342</u>	<u>7,367,242</u>	<u>7,246,923</u>	<u>6,848,172</u>	<u>6,810,916</u>
—	—	—	8,800	9,070
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	1,457	1,569
—	—	—	<u>10,257</u>	<u>10,639</u>
<u>\$ 7,482,342</u>	<u>\$ 7,367,242</u>	<u>\$ 7,246,923</u>	<u>\$ 6,858,429</u>	<u>\$ 6,821,555</u>
2.28%	2.23%	2.28%	2.29%	2.44%
\$ 798	\$ 797	\$ 800	\$ 773	\$ 787

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2005-2014

(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 Discount	Issuance Premium
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	(126)	287,272
2007	5,902,330	245,045	727,640	—	—	(369)	309,261
2006	5,738,815	255,045	454,060	—	—	(721)	313,253
2005	5,698,535	265,045	475,170	—	—	(1,175)	339,004

Note: Population data can be found in table 15.

<u>Total</u>	<u>Per Capita</u>
\$ 6,945,128	\$ 698
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
6,760,452	762
6,776,579	782

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2014

(Dollars in Thousands)

Payable from General Fund Revenues

	Total General Obligation Bonds	Total General Fund	Clean Water Series 2002A 12-1-02 2.25 - 5%	Public Improvement Series 2003A 3-1-03 2% - 5.25%	Public Improvement Refunding Series 2004 9-29-04 3%-5.5%	Public Improvement Series 2005A 1-12-05 4%-5.5%	Refunding Series 2005A 1-12-05 3%-5%
Bonds Authorized and Issued:							
Ch. 132, 1998 session law.....	\$ 127,155	\$ 127,155	\$ 18,800	\$ 38,355	\$ —	\$ —	\$ —
Ch. 3, 2000 session law.....	581,645	581,645	—	281,645	—	—	—
2004 session law.....	<u>5,189,524</u>	<u>4,853,370</u>	<u>—</u>	<u>—</u>	<u>57,470</u>	<u>705,500</u>	<u>106,895</u>
Total bonds authorized and issued.....	5,898,324	5,562,170	18,800	320,000	57,470	705,500	106,895
Bonds retired.....	1,564,949	1,511,026	6,175	262,225	48,100	289,000	36,060
Partial defeasances.....	<u>726,275</u>	<u>726,275</u>	<u>—</u>	<u>24,775</u>	<u>—</u>	<u>391,500</u>	<u>—</u>
Bonds outstanding— June 30, 2014.....	<u>\$ 3,607,100</u>	<u>\$ 3,324,869</u>	<u>\$ 12,625</u>	<u>\$ 33,000</u>	<u>\$ 9,370</u>	<u>\$ 25,000</u>	<u>\$ 70,835</u>
Bond Maturity As Follows:							
2014-15.....	\$ 369,240	\$ 322,974	\$ 1,775	\$ —	\$ 9,370	\$ 25,000	\$ 11,680
2015-16.....	370,570	332,987	2,245	—	—	—	11,600
2016-17.....	368,335	316,549	510	—	—	—	47,555
2017-18.....	379,424	334,093	4,915	—	—	—	—
2018-19.....	381,971	336,583	3,180	—	—	—	—
2019-20.....	350,740	294,863	—	—	—	—	—
2020-21.....	271,790	271,790	—	—	—	—	—
2021-22.....	253,680	253,680	—	—	—	—	—
2022-23.....	249,230	249,230	—	—	—	—	—
2023-24.....	223,240	223,240	—	—	—	—	—
2024-25.....	144,945	144,945	—	—	—	—	—
2025-26.....	85,650	85,650	—	—	—	—	—
2026-27.....	68,630	68,630	—	16,500	—	—	—
2027-28.....	40,885	40,885	—	16,500	—	—	—
2028-29.....	24,385	24,385	—	—	—	—	—
2029-30.....	<u>24,385</u>	<u>24,385</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Bonds Outstanding.....	<u>\$ 3,607,100</u>	<u>\$ 3,324,869</u>	<u>\$ 12,625</u>	<u>\$ 33,000</u>	<u>\$ 9,370</u>	<u>\$ 25,000</u>	<u>\$ 70,835</u>

Payable from General Fund Revenues

Refunding Series 2005B 6-29-05 5%	Clean Water Series 2006A 3-15-06 3.875%-5.5%	Higher Education Series 2006A 6-14-06 4.25%-5%	Public Improvement Series 2007A 3-1-07 4.125%-5.5%	Refunding Series 2007B 5-9-07 4%-4.5%	Refunding Series 2009A 10-20-09 3.5%-5%	Public Improvement Series 2010A 4-14-10 4%-5%	Refunding Series 2010B 8-31-10 5%	Refunding Series 2010C 10-12-10 5%
\$ —	\$ 70,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	300,000	—	—	—	—	—	—
<u>470,510</u>	<u>—</u>	<u>—</u>	<u>502,745</u>	<u>84,385</u>	<u>169,297</u>	<u>487,700</u>	<u>472,595</u>	<u>236,095</u>
470,510	70,000	300,000	502,745	84,385	169,297	487,700	472,595	236,095
249,065	25,100	120,000	175,000	2,020	20,558	97,540	116,330	—
—	—	135,000	175,000	—	—	—	—	—
<u>\$ 221,445</u>	<u>\$ 44,900</u>	<u>\$ 45,000</u>	<u>\$ 152,745</u>	<u>\$ 82,365</u>	<u>\$ 148,739</u>	<u>\$ 390,160</u>	<u>\$ 356,265</u>	<u>\$ 236,095</u>
\$ 73,650	\$ 3,200	\$ 15,000	\$ 25,000	\$ 225	\$ 22,289	\$ 24,385	\$ 50,095	\$ —
69,255	3,200	15,000	25,000	230	31,402	24,385	63,915	—
71,925	3,200	—	25,000	240	43,269	24,385	15,210	—
6,615	3,200	—	—	250	22,448	24,385	137,430	21,735
—	3,200	—	—	260	22,503	24,385	89,615	21,725
—	4,000	—	—	275	6,828	24,385	—	48,745
—	4,000	—	—	285	—	24,385	—	72,030
—	4,000	—	—	295	—	24,385	—	71,860
—	4,000	—	—	80,305	—	24,385	—	—
—	4,000	—	—	—	—	24,385	—	—
—	4,000	—	25,000	—	—	24,385	—	—
—	4,900	15,000	25,000	—	—	24,385	—	—
—	—	—	27,745	—	—	24,385	—	—
—	—	—	—	—	—	24,385	—	—
—	—	—	—	—	—	24,385	—	—
—	—	—	—	—	—	24,385	—	—
<u>\$ 221,445</u>	<u>\$ 44,900</u>	<u>\$ 45,000</u>	<u>\$ 152,745</u>	<u>\$ 82,365</u>	<u>\$ 148,739</u>	<u>\$ 390,160</u>	<u>\$ 356,265</u>	<u>\$ 236,095</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (Continued)

June 30, 2014

(Dollars in Thousands)

Payable from General Fund Revenues

	Refunding Series 2013B 2-20-13 3%-5%	Refunding Series 2013C 2-28-13 3.5%-5%	Refunding Series 2013D 2-28-13 3%-4%	Refunding Series 2013E 3-21-13 2%-5%	Refunding Series 2014A 4-30-14 5%
Bonds Authorized and Issued:					
Ch. 132, 1998 session law.....	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 3, 2000 session law.....	—	—	—	—	—
2004 session law.....	<u>271,373</u>	<u>351,970</u>	<u>349,955</u>	<u>299,785</u>	<u>287,095</u>
Total bonds authorized and issued.....	271,373	351,970	349,955	299,785	287,095
Bonds retired.....	23,553	—	—	40,300	—
Partial defeasances.....	—	—	—	—	—
Bonds outstanding— June 30, 2014.....	<u>\$ 247,820</u>	<u>\$ 351,970</u>	<u>\$ 349,955</u>	<u>\$ 259,485</u>	<u>\$ 287,095</u>
Bond Maturity As Follows:					
2014-15.....	\$ 1,530	\$ 15,310	\$ 2,575	\$ 16,075	\$ 25,815
2015-16.....	10,215	28,165	2,655	16,475	29,245
2016-17.....	23,170	14,850	27,735	16,870	2,630
2017-18.....	455	27,720	27,315	35,280	22,345
2018-19.....	390	35,960	26,885	86,255	22,225
2019-20.....	—	47,585	66,445	71,065	25,535
2020-21.....	450	47,160	65,850	17,465	40,165
2021-22.....	400	46,870	65,560	—	40,310
2022-23.....	13,595	39,470	64,935	—	22,540
2023-24.....	143,180	16,225	—	—	35,450
2024-25.....	54,435	16,290	—	—	20,835
2025-26.....	—	16,365	—	—	—
2026-27.....	—	—	—	—	—
2027-28.....	—	—	—	—	—
2028-29.....	—	—	—	—	—
2029-30.....	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 247,820</u>	<u>\$ 351,970</u>	<u>\$ 349,955</u>	<u>\$ 259,485</u>	<u>\$ 287,095</u>

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2014

Table 12

(Dollars in Thousands)

Payable from Highway Trust Fund

	<i>Total Highway Trust</i>	Highway Refunding Series 2009A 10-20-09 3.5%-5%	Highway Refunding Series 2010C 10-20-10 5%	Highway Refunding Series 2013B 2-20-13 3%-5%	Highway Refunding Series 2014A 4-30-14 5%
Bonds Authorized and Issued:					
Ch. 132, 1998 session law.....	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 3, 2000 session law.....	—	—	—	—	—
2004 session law.....	<u>336,154</u>	<u>202,622</u>	<u>66,055</u>	<u>47,887</u>	<u>19,590</u>
Total bonds authorized and issued.....	336,154	202,622	66,055	47,887	19,590
Bonds retired.....	53,923	24,606	—	29,317	—
Partial defeasances.....	—	—	—	—	—
Bonds outstanding— June 30, 2014.....	<u>\$ 282,231</u>	<u>\$ 178,016</u>	<u>\$ 66,055</u>	<u>\$ 18,570</u>	<u>\$ 19,590</u>
Bond Maturity As Follows:					
2014-15.....	\$ 46,266	\$ 26,676	\$ —	\$ —	\$ 19,590
2015-16.....	37,583	37,583	—	—	—
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.....	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 282,231</u>	<u>\$ 178,016</u>	<u>\$ 66,055</u>	<u>\$ 18,570</u>	<u>\$ 19,590</u>

Source: Compiled by the Department of State Treasurer

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2014

(Dollars in Thousands)

	<u>Lease-Purchase Revenue Bonds</u>				<u>Certificates of Participation</u>			
	Total Special Indebtedness Debt	Total Lease Purchase Revenue Bonds	NC	NC	Total Certificates of Participation	Repair and	Capital	Repair and
			Correctional	Facilities		Renovation	Improvements	Renovation
			Facilities Series 2003 7-15-03 2% - 5.25%	Projects Series 2004 11-1-04 2% - 5.25%		Project Series 2004B 5-6-04 2% - 5.25%	Series 2005A 6-9-05 3.5% - 5%	Projects Series 2006A 8-16-06 4% - 5%
Bonds Authorized and Issued:								
Ch. 284, 2003 session law.....	\$ 3,235,325	\$ 218,405	\$ 218,405	\$ —	\$ 700,000	\$ 125,000	\$ —	\$ 100,000
General Statute Ch. 148-37.2.....	53,640	53,640	—	53,640	—	—	—	—
Ch. 179, 2004 session law.....	<u>188,385</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>188,385</u>	<u>—</u>	<u>188,385</u>	<u>—</u>
Total bonds authorized and issued.....	3,477,350	272,045	218,405	53,640	888,385	125,000	188,385	100,000
Bonds retired.....	583,120	97,000	79,000	18,000	301,285	60,000	70,860	40,000
Partial defeasances.....	<u>510,405</u>	<u>170,920</u>	<u>139,280</u>	<u>31,640</u>	<u>339,485</u>	<u>59,000</u>	<u>97,175</u>	<u>45,000</u>
Bonds outstanding— June 30, 2014.....	<u>\$ 2,383,825</u>	<u>\$ 4,125</u>	<u>\$ 125</u>	<u>\$ 4,000</u>	<u>\$ 247,615</u>	<u>\$ 6,000</u>	<u>\$ 20,350</u>	<u>\$ 15,000</u>
Bond Maturity As Follows:								
2014-15.....	\$ 124,175	\$ 2,125	\$ 125	\$ 2,000	\$ 42,390	\$ 6,000	\$ 9,925	\$ 5,000
2015-16.....	127,750	2,000	—	2,000	37,350	—	10,425	5,000
2016-17.....	131,260	—	—	—	27,415	—	—	5,000
2017-18.....	135,230	—	—	—	22,935	—	—	—
2018-19.....	139,950	—	—	—	23,485	—	—	—
2019-20.....	159,005	—	—	—	22,070	—	—	—
2020-21.....	159,945	—	—	—	3,750	—	—	—
2021-22.....	164,450	—	—	—	3,750	—	—	—
2022-23.....	169,425	—	—	—	3,750	—	—	—
2023-24.....	172,910	—	—	—	3,750	—	—	—
2024-25.....	142,050	—	—	—	3,750	—	—	—
2025-26.....	136,595	—	—	—	3,750	—	—	—
2026-27.....	139,440	—	—	—	29,270	—	—	—
2027-28.....	135,465	—	—	—	20,200	—	—	—
2028-29.....	106,685	—	—	—	—	—	—	—
2029-30.....	93,005	—	—	—	—	—	—	—
2030-31.....	82,730	—	—	—	—	—	—	—
2031-32.....	46,430	—	—	—	—	—	—	—
2032-33.....	<u>17,325</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Bonds Outstanding.....	<u>\$ 2,383,825</u>	<u>\$ 4,125</u>	<u>\$ 125</u>	<u>\$ 4,000</u>	<u>\$ 247,615</u>	<u>\$ 6,000</u>	<u>\$ 20,350</u>	<u>\$ 15,000</u>

Source: Compiled by the Department of State Treasurer.

Table 13

Certificates of Participation			Limited Obligation bonds							
Capital Improvements Series 2006A	Capital Improvements Series 2007A	Repair and Renovation Projects Series 2007B	Total Limited Obligation Bonds	Capital Improvements Series 2008A	Capital Improvements Series 2009A	Capital Improvements Series 2011A	Capital Improvements Refunding Series 2011B	Capital Improvements Series 2011C	Capital Improvements Series 2013A	Capital Improvements Refunding Series 2014B
10-18-06 4% - 5%	10-3-07 4% - 5%	10-24-07 4% - 5%		8-27-08 4% - 5%	4-29-09 2% - 5%	2-16-11 3%-5.25%	10-26-11 4%-5%	11-29-11 3%-5%	1-30-13 2.25%-5%	5-21-14 5%
\$ 200,000	\$ 200,000	\$ 75,000	\$ 2,316,920	\$ 200,000	\$ 400,000	\$ 500,000	\$ 367,350	\$ 400,000	\$ 250,000	\$ 199,570
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
200,000	200,000	75,000	2,316,920	200,000	400,000	500,000	367,350	400,000	250,000	199,570
70,000	37,925	22,500	184,835	33,420	70,550	47,675	—	25,325	7,865	—
60,000	78,310	—	—	—	—	—	—	—	—	—
<u>\$ 70,000</u>	<u>\$ 83,765</u>	<u>\$ 52,500</u>	<u>\$ 2,132,085</u>	<u>\$ 166,580</u>	<u>\$ 329,450</u>	<u>\$ 452,325</u>	<u>\$ 367,350</u>	<u>\$ 374,675</u>	<u>\$ 242,135</u>	<u>\$ 199,570</u>
\$ 10,000	\$ 7,715	\$ 3,750	\$ 79,660	\$ 7,720	\$ 15,670	\$ 18,490	\$ 15,905	\$ 13,620	\$ 8,255	\$ —
10,000	8,175	3,750	88,400	8,105	16,360	19,230	21,735	14,300	8,670	—
10,000	8,665	3,750	103,845	8,510	17,060	20,000	33,735	15,015	9,105	420
10,000	9,185	3,750	112,295	8,935	17,835	20,800	34,450	15,765	9,560	4,950
10,000	9,735	3,750	116,465	9,385	18,610	21,630	35,580	16,555	10,035	4,670
10,000	8,320	3,750	136,935	9,855	19,455	22,495	51,240	17,385	10,540	5,965
—	—	3,750	156,195	10,345	20,415	23,395	48,480	18,250	11,065	24,245
—	—	3,750	160,700	10,860	21,435	24,330	48,480	19,165	11,620	24,810
—	—	3,750	165,675	11,405	22,470	25,545	48,510	20,120	12,200	25,425
—	—	3,750	169,160	11,975	23,590	26,825	29,235	20,925	12,810	43,800
—	—	3,750	138,300	12,575	24,770	28,165	—	21,555	13,450	37,785
—	—	3,750	132,845	13,205	26,010	29,575	—	22,635	13,920	27,500
10,000	15,520	3,750	110,170	13,865	27,255	31,050	—	23,765	14,235	—
—	16,450	3,750	115,265	14,555	28,565	32,605	—	24,595	14,945	—
—	—	—	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>\$ 70,000</u>	<u>\$ 83,765</u>	<u>\$ 52,500</u>	<u>\$ 2,132,085</u>	<u>\$ 166,580</u>	<u>\$ 329,450</u>	<u>\$ 452,325</u>	<u>\$ 367,350</u>	<u>\$ 374,675</u>	<u>\$ 242,135</u>	<u>\$ 199,570</u>

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged Revenue-					
Federal transportation revenues.....	\$ 1,311,264	\$ 1,137,807	\$ 1,139,303	\$ 1,296,856	\$763,579
Net available revenue.....	<u>\$ 1,311,264</u>	<u>\$ 1,137,807</u>	<u>\$ 1,139,303</u>	<u>\$ 1,296,856</u>	<u>\$763,579</u>
Debt service					
Principal.....	\$ 59,545	\$ 57,265	\$ 40,535	\$ 61,745	\$ 49,515
Interest.....	21,006	23,288	18,298	20,082	17,652
Coverage ratio.....	16.28	14.12	19.37	15.85	11.37
North Carolina Turnpike Authority					
Revenue Bonds (including GARVEE bonds)					
Pledged Revenue-					
Toll revenues..... [2]	\$ 18,980	\$ 10,416	\$ 398	\$ —	\$ —
Fees, licenses and fines..... [3]	5,203	2,557	97	—	—
Federal transportation revenues.....	11,677	12,365	12,400	—	—
Federal interest subsidy on debt.....	11,338	11,686	12,218	10,843	7,298
Interest on investments.....	1,272	2,372	2,911	5,235	4,121
Net available revenue.....	<u>\$ 48,470</u>	<u>\$ 39,396</u>	<u>\$ 28,024</u>	<u>\$ 16,078</u>	<u>\$ 11,419</u>
Debt service					
Principal.....	\$ 19,150	\$ 22,725	\$ —	\$ —	\$ —
Interest.....	62,585	63,076	49,753	37,869	15,052
Coverage ratio..... [1]	0.59	0.46	0.56	0.42	0.76

[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.

2009	2008	2007	2006	2005
\$ 1,119,259	\$ 904,400	\$ —	\$ —	\$ —
<u>\$ 1,119,259</u>	<u>\$ 904,400</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ 45,745	\$ —	\$ —	\$ —	\$ —
13,585	5,056	—	—	—
18.87	178.87	—	—	—
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
—	—	—	—	—

Continued

PLEDGED REVENUE COVERAGE (Continued)

For the Fiscal Years 2005-2014

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services.....	\$ 239,267	\$ 237,607	\$ 279,287	\$ 321,229	\$319,513
Student tuition and fees.....	6,673	6,624	6,903	13,859	13,503
Patient Services.....	737,984	666,238	635,434	592,061	561,392
Contracts and grants.....	—	—	—	—	—
State appropriations.....	—	—	—	3	—
Fees, licenses and fines.....	—	—	270	565	89
Rental lease earnings.....	3,866	73	258	6,787	5,809
Investment income.....	522	533	612	944	1,405
Federal interest subsidy on debt.....	368	400	436	1,559	—
Other operating revenues.....	3	—	1,072	563	538
Net incr (decr) in fair value of investments.....	571	362	74	—	—
Non-operating revenues.....	9,619	92	66	—	—
Less: Operating expenses.....	(915,827)	(797,205)	(744,162)	(773,796)	(749,788)
Net available revenue.....	<u>\$ 83,046</u>	<u>\$ 114,724</u>	<u>\$ 180,250</u>	<u>\$ 163,774</u>	<u>\$152,461</u>
Debt service					
Principal.....	\$ 16,645	\$ 17,110	\$ 21,035	\$ 10,305	\$ 20,754
Interest.....	8,668	9,137	13,226	12,245	9,472
Coverage ratio.....	3.28	4.37	5.26	7.26	5.04
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services.....	\$ 3,695	\$ 6,283	\$ 5,998	\$ 5,896	\$ 5,688
Student tuition and fees.....	—	1,350	1,307	1,294	1,286
Rental lease earnings.....	3,035	—	62	31	26
Investment income.....	9	—	4	2	3
Other operating revenues.....	—	—	17	33	32
Less: Operating expenses.....	(2,560)	(2,127)	(2,144)	(2,026)	(2,244)
Net available revenue.....	<u>\$ 4,179</u>	<u>\$ 5,506</u>	<u>\$ 5,244</u>	<u>\$ 5,230</u>	<u>\$ 4,791</u>
Debt service					
Principal.....	\$ 1,110	\$ 1,788	\$ 1,728	\$ 1,630	\$ 1,555
Interest.....	1,824	1,923	1,997	2,052	2,142
Coverage ratio.....	1.42	1.48	1.41	1.42	1.30

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 412,186	\$ 658,628	\$ 614,244	\$ 562,332	\$ 531,673
15,405	29,221	37,088	36,847	51,657
502,062	1,447,635	1,367,363	1,210,356	1,131,038
—	123,469	120,657	120,513	113,049
—	53,010	45,674	44,510	39,334
1,643	10,506	19,814	19,626	13,056
5,989	7,690	29,587	21,182	18,802
5,190	(31,687)	99,337	31,632	19,121
—	—	—	—	—
708	13,407	20,318	30,369	30,133
—	—	—	—	—
—	53,231	50,929	37,274	39,558
(805,531)	(2,047,904)	(1,919,133)	(1,763,826)	(1,653,952)
<u>\$ 137,652</u>	<u>\$ 317,206</u>	<u>\$ 485,878</u>	<u>\$ 350,815</u>	<u>\$ 333,469</u>
\$ 19,375	\$ 51,272	\$ 51,995	\$ 52,696	\$ 54,917
15,793	69,315	66,764	66,557	58,146
3.91	2.63	4.09	2.94	2.95
\$ 5,969	\$ 2,446	\$ —	\$ —	\$ —
1,329	1,147	1,114	1,090	—
77	118	—	—	—
8	45	44	19	—
96	—	—	—	—
(2,076)	(895)	(60)	—	—
<u>\$ 5,403</u>	<u>\$ 2,861</u>	<u>\$ 1,098</u>	<u>\$ 1,109</u>	<u>\$ —</u>
\$ 1,485	\$ 1,075	\$ 905	\$ 575	\$ —
1,947	1,209	573	222	—
1.57	1.25	0.74	1.39	—

SCHEDULE OF DEMOGRAPHIC DATA

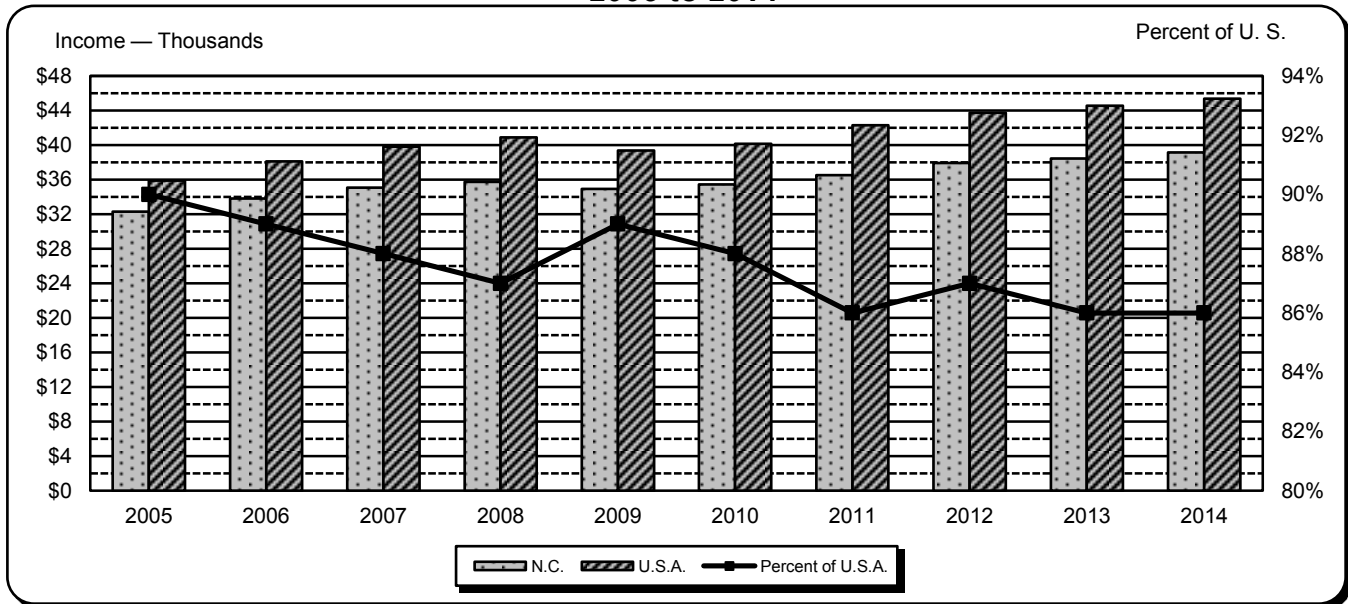
For the Years 2005-2014

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
2014	318,373,354	0.71%	9,944,571	0.98%	\$45,366	\$ 39,168	86.34%	\$14,443,326	\$389,509
2013	316,128,839	0.72%	9,848,060	1.02%	44,543	38,457	86.34%	14,081,327	378,727
2012	313,873,685	0.74%	9,748,364	1.00%	43,735	37,910	86.68%	13,727,266	369,560
2011	311,582,564	0.92%	9,651,377	1.22%	42,298	36,520	86.34%	13,179,319	352,468
2010	308,745,538	0.57%	9,535,483	1.65%	40,163	35,462	88.30%	12,400,147	338,147
2009	307,006,550	0.86%	9,380,884	1.45%	39,357	34,934	88.76%	12,082,857	327,712
2008	304,374,846	0.93%	9,247,134	2.02%	40,873	35,729	87.41%	12,440,713	330,391
2007	301,579,895	1.00%	9,064,074	2.22%	39,804	35,079	88.13%	12,004,086	317,959
2006	298,593,212	0.96%	8,866,977	2.28%	38,127	33,811	88.68%	11,384,463	299,801
2005	295,753,151	0.92%	8,669,452	1.62%	35,888	32,302	90.01%	10,613,989	280,041

[1] - U.S. Census estimates based on 2000 census (July 1) for years 2005 - 2009; Year 2010 is April 1 U.S. Census count; U.S. Census estimates based on 2010 census (July 1) for years 2011 - 2013; and year 2014 is an Office of the State Controller estimate.

[2] - Bureau of Economic Analysis estimate for years 2005 - 2013. Since the 2014 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 2014 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2014 Per Capita Income for North Carolina".

**Per Capita Income
North Carolina Compared to United States
2005 to 2014**



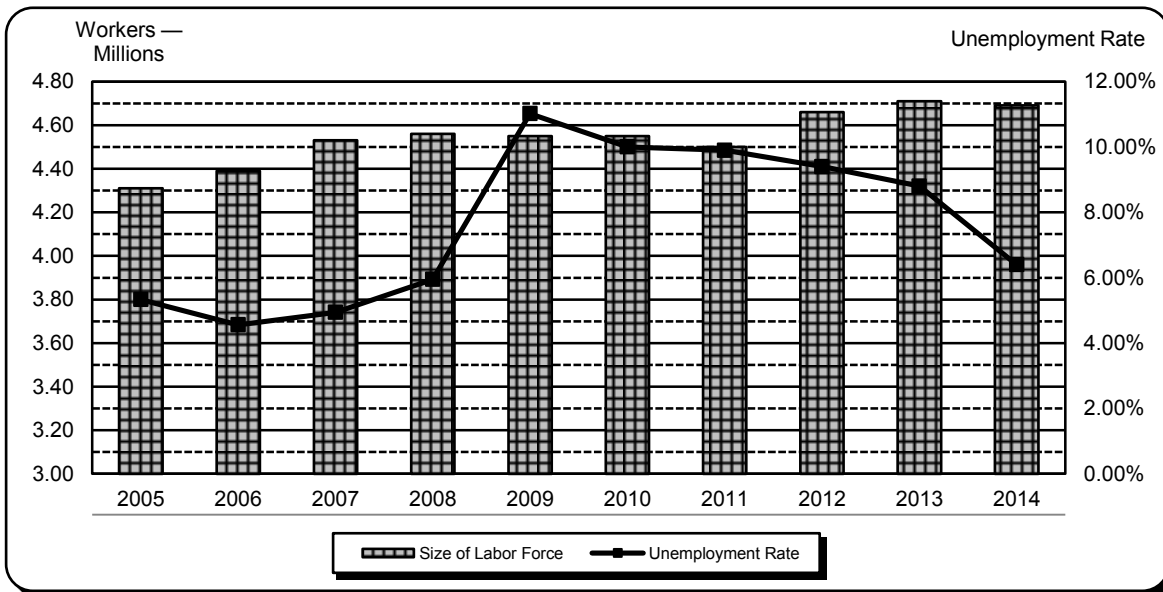
Sources: [3] Population
[4] Per Capita Income
[5] Personal Income

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
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
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626
2005	4,308,482	4,078,645	229,837	5.33%	7,925,587	50,488

**Civilian Labor Force Trends
With Unemployment Percentages
2005 to 2014**



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 2005 & 2014

Table 16

Employer	2014			2005		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	180,000-184,999	1	4.16%	165,000-170,000	1	4.11%
Federal Government.....	65,000-69,999	2	1.54%	60,000-64,999	2	1.53%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.20%	45,000-49,999	3	1.16%
Charlotte Mecklenburg Hospital.....	30,000-34,999	4	0.74%	15,000-19,999	9	0.43%
Duke University.....	30,000-34,999	5	0.74%	25,000-29,999	4	0.67%
Food Lion LLC.....	25,000-29,999	6	0.63%	20,000-24,999	5	0.55%
Wells Fargo Bank NA.....	25,000-29,999	7	0.63%	20,000-24,999	6	0.55%
Charlotte-Mecklenburg Board of Education..	20,000-24,999	8	0.51%	15,000-19,999	7	0.43%
Bank of America NA.....	20,000-24,999	9	0.51%	—	—	—
Wake County Public schools.....	20,000-24,999	10	0.51%	15,000-19,999	8	0.43%
IBM Corporation.....	—	—	—	15,000-19,999	10	0.43%
Total.....	460,000-519,990		11.17%	395,000-444,991		10.29%

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 2005-2014

Functions	2014	2013	2012	2011	2010
General government.....	5,357	5,450	5,425	5,835	5,941
Primary and secondary education.....	157,205	165,167	162,124	157,380	154,107
Higher education:					
Universities.....	61,720	60,665	61,317	62,716	61,505
Community colleges.....	18,588	19,518	19,702	19,958	18,948
Health and human services (1).....	17,801	17,786	17,958	20,382	20,919
Economic development.....	3,003	2,722	2,415	2,767	2,524
Environment and natural resources (2).....	3,566	3,549	3,561	4,582	4,607
Public safety, corrections and regulation (1).....	33,635	34,668	34,650	34,045	33,140
Transportation.....	13,309	13,170	13,175	13,550	13,902
Agriculture (2).....	2,081	2,110	2,064	1,349	1,366
Totals.....	316,265	324,805	322,391	322,564	316,959

(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.

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2014 are projected from prior year data.

Table 17

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
5,898	5,774	5,656	5,308	5,122
163,322	163,113	160,086	156,463	152,746
61,063	58,856	56,751	55,800	53,560
17,263	16,708	16,148	15,610	15,764
22,094	21,276	21,128	20,766	20,665
2,474	2,558	2,623	2,567	2,366
4,740	4,709	4,653	4,616	4,493
33,895	33,014	32,360	31,820	30,742
14,767	14,752	14,664	14,007	14,379
1,393	1,385	1,405	1,377	1,339
<u>326,909</u>	<u>322,145</u>	<u>315,474</u>	<u>308,334</u>	<u>301,176</u>

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2005-2014

	2014	2013	2012	2011	2010
General Government					
Department of Revenue					
Number of tax returns filed electronically.....	5,427,355	5,139,849	4,801,446	4,078,310	4,089,267
Number of tax returns processed.....	10,994,901	10,772,255	10,888,330	10,596,928	10,898,544
Number of individual refunds direct deposited.....	1,934,344	1,821,767	1,702,620	1,556,340	1,376,997
Number of individual refunds processed.....	3,127,317	3,123,326	3,083,401	3,026,035	3,021,379
Number of pieces of incoming mail.....	5,129,271	5,514,005	5,827,530	6,012,977	7,219,907
Number of pieces of outgoing mail.....	8,417,904	8,172,888	8,525,983	8,972,129	8,201,770
Department of Administration					
Construction projects administered.....	7	7	6	6	16
Construction value excluding design fee (thousands).....	\$ 63,460	\$ 62,729	\$ 54,378	\$ 35,403	\$ 79,906
Cultural Resources					
Visitation to historical sites and museums.....	3,224,547	3,037,648	2,966,128	2,966,209	2,325,718
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment.....	1,510,664	1,493,474	1,481,671	1,476,348	1,465,562
Total high school graduates.....	95,580	94,869	92,031	89,027	89,968
Graduate intention to pursue further education.....	84.50%	85.00%	100.00%	86.12%	85.19%
Higher Education					
Community Colleges					
Number of students (annualized FTE).....	229,924	238,092	240,338	249,934	246,656
Number of certificates and degrees awarded.....	45,392	40,224	56,140	39,255	33,922
Universities					
Number of regular term students (FTE).....	200,716	201,251	200,386	201,147	199,717
Number of certificates and degrees awarded.....	51,086	49,791	48,045	45,821	43,459
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (1).....	2,073,166	1,781,096	1,872,279	1,670,912	1,721,439
Food stamp recipients.....	1,620,115	1,670,428	2,113,648	1,567,572	1,294,732
Clients served by mental health facilities.....	3,593	3,463	4,102	4,423	6,199
Clients served by developmental disabilities facilities.....	1,212	1,289	1,283	1,334	1,323
Clients served by substance abuse facilities.....	4,047	4,181	3,901	4,200	4,103
Clients served by neuro-meds facilities.....	744	567	830	827	829
Children served through subsidized child care.....	121,112	121,303	129,752	136,564	151,363
Participation in Special Supplemental Nutrition Program.....	257,582	265,616	268,872	272,806	271,980
Clients served through Work First.....	37,256	45,201	102,367	47,166	56,186
NC Health Choice annual enrollment.....	98,537	192,044	154,927	208,563	198,613
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion.....	14,094	16,939	15,634	22,409	18,326
Capital investment (thousands).....	\$ 2,787,447	\$ 2,139,346	\$ 3,600,000	\$ 4,151,293	\$ 2,653,795
Division of Employment Security					
Total employed.....	4,389,480	4,292,251	4,216,014	4,055,793	4,089,199
Percentage of unemployment.....	6.40%	8.80%	9.40%	9.90%	10.00%

Table 18

2009	2008	2007	2006	2005
3,502,141	3,246,333	2,799,979	2,487,716	1,922,459
11,336,722	11,258,489	10,386,112	10,437,669	9,947,817
1,294,894	1,119,403	925,321	809,473	673,976
3,081,986	3,005,539	2,832,152	2,834,960	2,732,523
6,897,757	8,636,219	8,092,899	7,986,688	8,334,624
8,443,945	9,194,775	7,844,614	9,206,342	8,687,346
135	117	61	71	226
\$ 110,674	\$ 52,660	\$ 60,028	\$ 73,006	\$ 873,713
2,079,340	2,627,987	2,748,455	2,068,910	2,356,046
1,466,803	1,462,374	1,435,275	1,368,607	1,346,681
83,618	80,606	88,691	72,580	74,691
85.09%	84.86%	84.63%	87.09%	84.64%
215,915	200,000	193,410	190,644	194,235
31,203	28,173	27,117	28,983	29,600
193,219	187,791	181,886	176,619	158,398
41,924	39,592	38,260	37,348	37,569
1,686,515	1,721,488	1,667,354	1,673,510	1,545,366
1,077,914	924,265	874,426	838,064	818,141
8,465	11,729	14,897	14,766	14,909
1,351	1,376	1,390	1,382	1,425
3,922	4,052	3,463	3,692	3,493
858	854	874	851	852
150,813	159,457	167,568	230,140	155,339
273,845	254,120	239,441	63,290	224,670
54,911	53,082	59,340	69,885	39,426
194,611	181,685	171,580	199,160	169,491
15,077	11,636	19,259	20,293	18,246
\$ 3,433,657	\$ 3,600,000	\$ 3,336,864	\$ 3,024,914	\$ 2,982,292
4,052,943	4,288,621	4,309,833	4,193,971	4,078,645
11.02%	5.95%	4.94%	4.56%	5.33%

Continued

OPERATING INDICATORS BY FUNCTION (Continued)

For the Fiscal Years 2005-2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Environment and Natural Resources</u>					
Department of Environment and Natural Resources					
Public drinking water systems in compliance.....	96%	96%	95%	96%	96%
Visitation to state parks.....	14,751,051	13,918,725	14,247,295	14,660,154	14,023,959
Visitation to Museum of Natural Sciences.....	936,905	1,205,601	914,044	675,751	656,234
Visitation to state aquariums (5).....	1,123,756	1,193,252	1,104,200	1,083,967	1,125,096
Visitation to N.C. Zoo.....	728,531	732,310	738,072	741,119	749,627
Wildlife Resources Commission					
Hunting licenses sold.....	126,524	117,473	115,420	119,347	114,677
Fishing licenses sold (inland and coastal) (6).....	823,712	772,197	791,044	797,897	787,113
Combination hunting/fishing licenses sold (6).....	204,179	199,280	198,689	198,102	198,045
Vessels registered.....	144,316	149,311	143,535	147,964	151,348
<u>Public Safety, Corrections and Regulation (4)</u>					
Department of Public Safety					
Incarcerated adult offenders.....	37,529	37,619	38,385	41,030	40,102
Supervised adult offenders.....	103,399	105,763	103,163	109,326	111,743
Juvenile offenders.....	8,141	8,625	9,090	9,332	9,867
Administrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court.....	100.00%	100.00%	100.00%	100.00%	100.00%
Cases disposed as a % of cases filed-District Court.....	100.00%	100.00%	100.00%	100.00%	100.00%
<u>Agriculture</u>					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (2).....	96,880	110,730	104,666	99,273	121,897
Rejection rate.....	16.36%	12.84%	9.20%	9.93%	10.77%
Retail scales tested (3).....	30,220	27,995	28,074	28,925	33,331
Rejection rate.....	8.96%	9.65%	8.14%	7.63%	11.10%

Notes:

- (1) A significant portion of the increase in Medicaid recipients from 2005 to 2006 is the result of legislation moving children formerly covered under State Child Health Insurance Program to Medicaid for 2006. This change resulted in minimal additional cost to the Medicaid program.
- (2) Governed by Gasoline and Oil Inspection Law (G.S. 119)
- (3) Governed by North Carolina Weights and Measures Act (G.S. 81A)
- (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) Data not available for years prior to 2009
- (6) Beginning 2007, the Wildlife Resources Commission (WRC) began selling Coastal Recreational Fishing Licenses (CRFL) on behalf of the Department of Environment and Natural Resources, Division of Marine Fisheries. These licenses are sold as stand-alone licenses and in combination with WRC hunting and fishing licenses. The count of CRFL related licenses is reflected in the annual license totals.

Table 18

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
95%	95%	95%	94%	93%
13,378,421	12,871,661	13,292,706	12,246,845	12,376,488
763,763	727,000	667,014	622,915	556,422
991,430	—	—	—	—
729,615	729,500	746,650	682,977	705,030
110,198	106,337	106,691	107,520	107,551
794,132	778,014	625,672	357,161	332,207
204,327	210,887	219,358	207,537	211,575
143,071	140,573	142,808	363,641	354,096
40,824	39,112	38,218	37,121	36,481
114,367	116,927	117,164	116,513	117,611
10,701	10,592	10,844	10,658	10,575
97.40%	98.50%	98.50%	93.80%	95.52%
100.00%	98.28%	98.70%	98.10%	97.56%
99,461	98,736	100,928	109,699	95,735
10.29%	12.73%	13.80%	10.77%	8.87%
33,329	24,640	20,051	24,896	27,678
11.11%	10.51%	10.70%	8.28%	9.09%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2005-2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Primary Government					
General Government					
Department of Administration					
Buildings.....	105	127	120	117	129
Parking lots.....	25	25	25	25	76
Parking spaces.....	8,528	8,597	7,877	8,314	8,813
Motor Fleet vehicles	8,136	7,620	7,538	8,145	8,341
Health and Human Services					
Mental Health Institutions.....	13	12	11	11	12
Number of certified beds.....	4,245	4,402	4,314	4,331	4,688
Environment and Natural Resources					
Department of Environment and Natural Resources					
Number of state park lands.....	35	35	35	35	35
Acres of state park lands.....	155,556	153,959	152,578	150,807	148,897
Number of state recreation areas.....	4	4	4	4	4
Acres of state recreation areas.....	13,256	12,240	12,240	12,240	12,240
Number of state natural areas.....	20	20	20	20	19
Acres of state natural areas.....	23,896	22,519	22,254	22,145	20,833
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).....	1,816	1,622	1,593	1,355	1,569
Vehicles (7).....	883	896	856	1,889	1,764
Boats/trailers (7).....	508	489	468	633	606
Aircraft (7).....	3	3	3	26	32
Scientific equipment.....	774	689	663	789	762
Wildlife Resources Commission					
Number of game lands.....	64	57	62	62	61
Acres of game lands.....	496,134	492,440	480,257	480,257	475,212
Public Safety, Corrections and Regulation (6)					
Department of Public Safety					
Close security prisons.....	13	13	14	14	14
Medium security prisons.....	22	23	23	23	23
Minimum security prisons.....	24	29	29	33	33
Youth facilities.....	10	13	15	16	17
Vehicles:					
Passenger/cargo vans.....	122	120	152	106	108
Inmate transfer vans/buses.....	486	492	506	493	608
Inmate work crew vans/buses.....	223	222	239	243	276
Pickup trucks.....	348	338	381	349	353
Roving patrol pickups.....	97	98	91	92	103
One ton maintenance trucks.....	106	107	123	95	115
Specialty/other trucks (2).....	108	113	105	129	119
Enterprise Vehicles:					
Passenger/cargo vans.....	16	14	14	17	18
Inmate workcrew buses.....	19	15	20	23	25
Pickup trucks.....	52	44	49	49	54
One ton maintenance trucks.....	21	24	24	21	22
Specialty/other trucks.....	106	126	110	103	101

Table 19

2009	2008	2007	2006	2005
129	129	135	136	134
23	49	49	49	17
7,408	8,477	8,215	8,156	7,879
8,784	9,090	9,506	10,785	16,145
13	12	12	12	12
4,346	4,932	4,961	5,009	4,885
35	34	33	32	32
144,806	140,254	119,664	222,251	182,251
4	4	4	4	4
12,240	12,240	12,240	12,240	12,240
19	17	18	14	17
20,910	20,281	34,288	32,930	30,513
7	7	7	7	7
29,135	29,135	29,135	29,135	29,135
1,565	1,723	1,786	1,942	2,024
1,745	1,744	1,708	1,644	1,577
585	597	573	563	550
32	31	30	30	29
737	780	748	732	732
59	58	54	38	37
468,570	471,248	431,449	341,351	317,467
14	13	13	13	13
26	26	26	26	26
39	39	39	39	37
17	14	14	14	14
118	131	172	99	85
511	541	487	481	418
291	306	274	301	380
351	361	353	287	275
89	100	80	84	78
108	104	106	105	92
114	129	113	103	113
22	23	22	23	24
26	28	24	21	22
59	52	51	47	51
22	20	18	18	16
103	104	98	93	95

Continued

CAPITAL ASSET STATISTICS BY FUNCTION (Continued)

For the Fiscal Years 2005-2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Department of Public Safety					
Vehicles:					
<i>Alcohol Law Enforcement</i>					
Cars/SUV's.....	162	172	202	174	156
<i>State Highway Patrol</i>					
Cars.....	1,925	1,766	2,214	2,422	2,692
Trucks/vans.....	506	486	124	126	128
Motorcycles (3).....	40	28	26	25	19
Air craft:					
<i>State Highway Patrol</i>					
Helicopters.....	6	9	9	7	8
Transportation					
Department of Transportation					
Pavement in lane-miles:					
Primary subsystem (4).....	—	15,064	15,052	15,002	14,952
Secondary subsystem (4).....	—	64,514	64,440	64,413	64,378
Bridges:					
Number of bridges.....	13,552	13,557	13,583	13,531	13,251
Number of culverts.....	4,496	4,547	4,710	4,730	5,056
Vehicles.....	9,463	9,484	8,997	8,337	8,422
Heavy equipment.....	14,808	14,221	13,827	12,703	12,647
Component Units					
Higher Education					
Community Colleges					
Buildings.....	1,182	1,178	1,174	1,161	1,134
Universities					
Academic/administrative buildings.....	1,010	1,003	1,011	993	962
Dormitories/auxiliary buildings.....	684	692	680	654	640
Medical (5).....	39	36	34	31	37
University System Hospitals					
Administration.....	18	18	11	4	4
Clinical.....	52	52	14	12	11
Facility services.....	10	9	6	6	6
Hospital.....	7	8	6	6	6

Notes:

- (1) 500-600 fish were lost due to aquarium malfunction in 2005.
- (2) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.
- (3) Prior year data from the source was not available.
- (4) Recent data from the source was not available, as of the date of publication.
- (5) East Carolina Teaching Hospital
- (6) 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.
- (7) 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 Environment and Natural Resources.

Table 19

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
156	150	151	156	134
2,692	2,722	2,530	2,417	2,283
128	111	115	114	59
19	16	16	9	—
8	8	8	13	14
14,919	14,885	14,871	14,833	14,805
64,267	64,553	64,390	64,209	64,204
13,222	13,152	13,053	13,007	12,961
5,007	5,004	4,979	4,912	4,879
9,349	8,850	8,850	5,823	6,347
13,216	12,116	8,920	3,119	3,359
1,097	1,046	1,024	1,014	1,025
933	911	971	930	918
560	523	613	583	565
39	58	58	51	51
4	4	4	4	4
12	11	11	10	10
6	6	6	6	6
5	4	4	4	4

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 2005-2014

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, 2005-2014

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.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1) Required contribution and investment revenue:										
Earned.....	\$ 16,219	\$ 12,538	\$ 14,509	\$ 18,430	\$ 18,054	\$ 20,337	\$ 16,257	\$ 20,699	\$ 13,978	\$ 9,814
Ceded.....	2,380	2,489	3,077	2,371	3,642	3,852	3,576	3,717	4,502	4,313
Net earned.....	13,839	10,049	11,432	16,059	14,412	24,189	19,833	24,416	18,480	14,127
2) Unallocated expenses	2,951	3,092	3,672	664	680	659	666	701	714	695
3) Estimated claims and expenses, end of policy year:										
Incurred.....	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386	8,585
Ceded.....	—	—	—	—	—	—	—	—	—	—
Net incurred.....	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386	8,585
4) Paid (cumulative) as of:										
End of policy year.....	3,129	3,130	15,174	1,426	1,746	1,502	5,505	6,992	1,975	1,845
One year later.....	3,536	4,005	19,270	2,016	2,149	2,082	13,090	9,389	3,465	
Two years later.....	3,536	4,005	19,270	2,016	2,149	2,082	13,090	9,389		
Three years later.....	3,536	4,005	19,270	2,016	2,149	2,082	13,090			
Four years later.....	3,536	4,005	19,270	2,016	2,149	2,082				
Five years later.....	3,536	4,005	19,270	2,016	2,149					
Six years later.....	3,536	4,005	19,270	2,016						
Seven years later.....	3,536	4,005	19,270							
Eight years later.....	3,536	4,005								
Nine years later.....	3,536									
5) Reestimated ceded claims and expenses.....	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386	8,585
One year later.....	2,093	3,096	11,348	1,653	2,276	1,846	27,242	13,159	4,985	
Two years later.....	2,093	3,096	11,348	1,979	2,269	1,846	27,242	13,159		
Three years later.....	2,093	3,096	11,348	1,979	2,269	1,846	27,242			
Four years later.....	2,093	3,096	11,348	1,979	2,269	1,846				
Five years later.....	2,093	3,096	11,348	1,979	2,269					
Six years later.....	2,093	3,096	11,348	1,979						
Seven years later.....	2,093	3,096	11,348							
Eight years later.....	2,093	3,096								
Nine years later.....	2,093									
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)	—

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