North Carolina

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2015

The **North Carolina Maritime Museum at Southport** (top) tells the story of the Cape Fear region and its people. The Museum shares tales of pirates and pillage, blockade running, riverfront archaeology, and other nautical adventures.

The **North Carolina Maritime Museum in Beaufort** (middle) reflects coastal life and interprets lighthouses and lifesaving stations, the seafood industry, motorboats, and more. The Museum is the repository for artifacts from Blackbeard's wrecked flagship, Queen Anne's Revenge.

The **Graveyard of the Atlantic Museum in Hatteras** (bottom) is named in honor of thousands of shipwrecks that sank off North Carolina's coast. The Museum preserves and interprets the maritime heritage and shipwrecks of the North Carolina Outer Banks.

One historic coast. Three unique museums.

Photos courtesy of NC Department of Natural and Cultural Resources

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2015

PAT MCCRORY
GOVERNOR

LINDA COMBS
STATE CONTROLLER

Prepared by Statewide Accounting staff
Office of the State Controller

http://www.osc.nc.gov

This report was prepared by the
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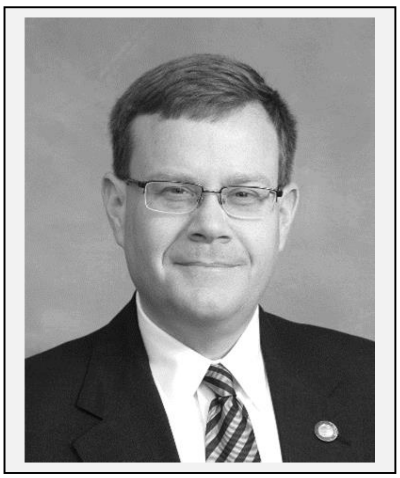
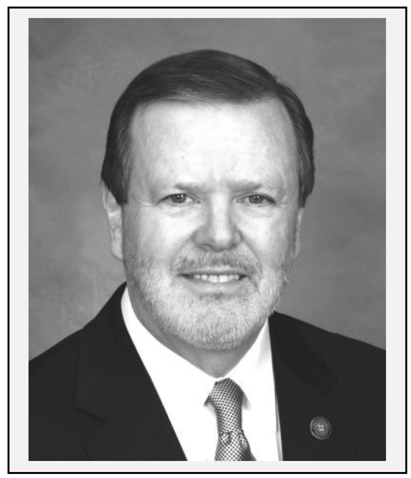
Martha Hunt, CPA	**Virginia Sisson**	

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

PAT MCCRORY
Governor of North Carolina



REPRESENTATIVE TIM MOORE
Speaker of the House
North Carolina General Assembly



SENATOR PHILIP BERGER
President Pro Tempore
North Carolina General Assembly

LINDA COMBS
State Controller

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For the Fiscal Year Ended June 30, 2015

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For the Fiscal Year Ended June 30, 2015

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INTRODUCTORY SECTION

State of North Carolina

Office of the State Controller

LINDA COMBS
STATE CONTROLLER

December 3, 2015

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 2015 Comprehensive Annual Financial Report (CAFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

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

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

In compliance with North Carolina's General Statutes, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

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

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Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 10.04 million, making it the 9th 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 79,584 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family. The State has been consistently ranked as one of the nation's "Top Business Climates" according to *Site Selection* magazine. It has taken the top honor 11 times in the last 15 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 Appropriations Bill. The budget approved by the General Assembly is the legal expenditure authority; however, the Office of State Budget and Management may approve executive changes to the legal budget as allowed by law. These changes result in the final budget presented in the required supplementary information.

Economic Condition

Overview

During fiscal year 2014-15, the US economy continued to grow at a steady, moderate pace. North Carolina's economic conditions reflected the same steady improvements experienced by the nation's economy. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector, Construction, and Durable-Goods Manufacturing. Employment improved, although wage growth fell below expectations. The State's unemployment rate dropped 0.4 percentage points during the year, falling from 6.2% to 5.8%. The State added 97,900 payroll jobs, a significant gain over the 73,600 added the previous year. Wage and salary income grew by 4.2%, which was improved over last year's 3% but weaker than long-run expectations of 5% to 6%. For the second half of 2015, economic conditions are expected to contribute to steady employment growth increasing upward pressure on wage growth. In 2016, wages are forecast to approach growth rates closer to the long-range average of 5.1%.

The very slow-pace of the recovery during the first five years after the Great Recession has finally ended yet strong, expansionary economic growth struggles to gain traction. The national Gross Domestic Product (GDP, a broad measure of economic activity) finished the last quarter of the fiscal year very strong with 3.7% growth offsetting the previous quarter's dismal 0.6% growth. Yet ongoing global economic instability will continue to be a drag on the US's ability to boost economic activity beyond the moderate, mid-two percent annual growth rate.

National Economic Outlook

United States Economic Indicators

	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected	FY2016-17 Projected
Economic growth (GDP)*	2.2%	2.6%	2.8%	2.7%
Personal Income	4.2%	4.2%	5.2%	6.1%
Corporate Pre-Tax Profits	3.6%	6.4%	6.2%	2.9%
Retails Sales	4.5%	4.9%	5.5%	5.6%
Unemployment Rate	6.8%	5.7%	5.0%	4.7%
Consumer Price Index	2.1%	0.1%	1.5%	2.2%
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 economic growth and financial stability proved difficult for some of its members. Uprisings in the Middle East added to this instability. Further complicating economic conditions was the decline in oil prices, which are the result of both weaker global demand and higher output levels. In the US, capital markets continued to perform well, but those improvements have not translated into widespread improvements in the whole economy. Over the past two years, business investments, hiring, and industrial production have periodically established some momentum offering hope that an expansionary phase in the economy was on the horizon. Unfortunately, the momentum has gained little traction and leaves us with a continuation of weaker overall growth in the economy than one might expect six years after a recession's end. The nation's outlook for the remainder of 2015 and 2016 is for a continuation of this modest, below-average economic growth. This means the pace of economic activity is not expected to either significantly accelerate or decelerate over the next eighteen to twenty-four months.

Economic indicators conveyed the subpar pace of growth during the fiscal year. The national economy grew at a pace of 2.6%. This was slightly ahead of the pace of the previous fiscal year. The economy appeared poised to move into a stronger expansionary phase with 2.9% annualized growth in the third quarter of 2014. By the next quarter, rather than accelerating, growth had slowed to 2.5%. The next two fiscal years' economic activity is expected to maintain the current pace, growing by 2.8% and 2.7%, respectively.

Improving economic activity during the year meant the dismal pace of employment growth would start to improve. The nation's average unemployment rate dropped from 6.8% to 5.7%. Previous drops in the unemployment rate had mostly been attributed to a shrinking labor force rather than growing payrolls. This fiscal year stronger employment growth was the main driver of the lower rate. Nonetheless, slack in the labor market persisted and was reflected by weaker-than-expected wage growth. During the fiscal year, total personal income in the nation rose by only 4.2%. Projected advancements in the economy suggest that personal income growth will increase with 5.2% growth expected in fiscal year 2015-16.

Business profitability saw a major rebound after the recession, but since then profits have plateaued. Many businesses coming out of the recession were bolstered by a global economic recovery spurred primarily by emerging markets such as India and China. In the past year, export demand has weakened considerably as global economic weakness intensified. National demand has not been able to pick up the slack, thus expectations for profit growth were downgraded. Profits grew by 6.4% during the fiscal year. Growth in the following years reflects ongoing weakness in the global economy plus an uptick in domestic wages, thus lowering overall profits. For the upcoming fiscal years, profits are forecast to grow 6.2% and 2.9%, respectively.

Retail sales are a good indicator of an economy's health. This key measure improved in fiscal year 2014-15, although the pace of growth did not meet most forecasters' expectations. As economic conditions continue to stabilize and the employment picture improves, consumers are more willing to increase spending. Household debt has increased the past two years reflecting more confident consumers. The biggest drag has been stagnant wage growth. Continued improvements in employment and a stronger wage growth will help boost retail sales over the next several years.

To summarize, the economy has settled into a subpar growth pattern in the 2.5% range. Gains, while modest, have improved consumer spending. As the labor market tightens, wages are expected to improve and should provide further support for increases in consumer spending. Global weakness, including the decline in China's economy, will keep the national economy from accelerating into a full expansionary mode.

North Carolina Economic Outlook

North Carolina Economic Indicators

	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected	FY2016-17 Projected
State Gross Product*	2.1%	2.4%	2.9%	3.2%
Personal Income	3.2%	4.5%	5.2%	5.3%
Wages & Salaries	3.0%	4.2%	5.1%	5.1%
Retail Sales	5.1%	5.6%	6.1%	6.5%
Unemployment Rate	6.2%	5.8%	5.8%	5.5%
Employment (Nonagricultural)	2.2%	2.4%	2.1%	2.2%
Population	1.0%	1.0%	1.2%	1.5%
Housing Starts	-2.3%	12.4%	14.0%	18.0%

*Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, but the pace of growth has been somewhat weaker than was expected at the start of the fiscal year. Economic indicators show that the economy did pick up pace during the fiscal year. Stronger economic conditions overall resulted in the State adding 97,900 jobs, a significant increase over the prior year. Most industries experienced solid growth, but employment in non-durable manufacturing and government declined. The solid employment gains did not translate to similar gains in wage and salary income, which increased by 4.2%.

Projections of the State's key economic indicators reflect how the State's recovery is expected to unfold. Gross State Product, a broad measure of the State's economic activity, is expected to show solid growth in the next two fiscal years. Total personal income growth slowed in fiscal year 2013-14, but is expected to progress over the next two years. For the fiscal year, total personal income rose 4.5%, well behind the strong growth of 6% to 7% experienced in the years prior to the recession. Wage and salary income, a component of total personal income, grew at 4.2% for the fiscal year. That was an improvement over the dismal 3.2% growth the previous year and wages should continue to improve with advances in the labor market. A return to long-term growth levels in wage and salary income is forecast for 2016.

The recovery in North Carolina gained strength and traction, yet never reached expansionary levels during fiscal year 2014-15. Nonetheless, the increase in economic activity was enough that the State saw solid improvement in employment. The unemployment rate at the end of the fiscal year fell to 5.8%, from 6.2% at the start of the fiscal year. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 5.6%. Going forward, retail sales are expected to make up ground from years of slow growth by growing at a pace one to two percentage points above the long-term average growth rate of 5.0%.

As the State's economy continues to progress, employment prospects are expected to stabilize over the next two fiscal years. Total Non-Agricultural employment growth is projected at 2.1% and 2.2%, respectively. That would be slightly below this year's growth, but would continue to add 90,000 to 95,000 jobs in each of the next two years. The construction industry had struggled to regain some of the jobs lost during and after the recession. During fiscal year 2014-15, employment grew in this industry by 6.8% (12,100 jobs). Despite the gains, there are now 61,000 fewer construction jobs than when the recession began in December 2007, a drop of 24.3%. For fiscal year 2014-15, in addition to Construction, Professional and Business Services, Construction, Durable-Goods Manufacturing; and Leisure and Hospitality Services outpaced the overall growth in the State's employment. Even as the State experiences strong job growth the unemployment rate is expected to remain in the mid-five percent range as discouraged workers who left the workforce re-enter given the better job prospects. The rate is projected to average 5.8% in fiscal year 2015-16, and 5.5% in fiscal year 2016-17.

The housing recession and the subsequent adjustments in the real estate market have taken a long time to unwind. A strong rebound in housing starts (new construction) was underway in 2012, mostly from pent-up demand from the long housing downturn. In fiscal year 2013-14, housing starts stalled and declined by 2.3%. They took off again in 2014 with yearly growth of 12.4%. Housing starts can provide valuable insight into construction jobs and ripple effects in other industries such as household furnishing and appliance manufacturing. Additionally, in a healthy economy contractors will be more likely to take risks starting new housing developments. Housing starts are expected to average just below 60,000 per year during the biennium with growth of 14% and 18%, respectively. This would represent nearly double the number of housing starts during the recession, but still would be 35,000 less annually when compared to the peak year of 2006.

To summarize, the State's economic conditions experienced steady improvement during most of the fiscal year. Employment growth was the strongest since the 2007-2009 recession ended. The State's economy should track closely with the national economy the rest of 2015 and into 2016. By 2017, the State's economy is projected to grow at a pace faster than the national economy. The anticipated strengthening of the economy should increase consumer demand and solidify employment growth. These projected gains in employment will help to reduce the remaining 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 2016.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
October 5, 2015

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, 2014, the State established an employer contribution rate of 9.15% of compensation for TSERS which remained effective for the fiscal year beginning July 1, 2015. This contribution rate exceeds the calculated Actuarially Required Contribution (ARC) rate of 8.69%. Setting the contribution rate at or above the ARC is a significant action taken by the General Assembly to ensure long-term fiscal health of the pension plan.

The 2014 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.

The 2015 General Assembly established statutory procedures for agencies entering or exiting TSERS and Local Government Employees' Retirement System (LGERS) to mitigate the financial impact of unanticipated agency closure or legislative removal. Agencies electing to enter the Retirement Systems must undergo a financial review process after the first year of participation. Board of Trustee members were given authority to grant or deny the entering agency permanent admission based on the financial review. The new provisions also provide for an agency to pay a withdrawal liability to offset costs due to unforeseen actuarial effects of an agency's removal.

Additional legislation from the 2015 session also gives authority to the State Treasurer to intercept State appropriations allocated to agencies and public school employers to recover outstanding debts due to the Retirement Systems.

Banking Operations

The Department of State Treasurer (DST) completed a three year project to upgrade the state's banking system in July 2015. The upgraded system provides additional functionality and efficiencies. The Department of State Treasurer and the Office of the State Controller are working jointly on the second phase of the project to include replacement of the state's aged cash management system which will integrate with the new banking system. The second phase is anticipated to be completed in 2016.

Economic Development Partnership of North Carolina, Inc.

Leaders of this state saw the need to establish a nonprofit organization to work with the public and private sector entities of North Carolina to focus on growth in North Carolina. The Economic Development Partnership of North Carolina, Inc. was created in 2013 and began operations in October 2014, after completion of its fundraising requirements. The organization is tasked with marketing the attributes North Carolina has to offer, to recruit new employers to the state, to market North Carolina's exports, and to attract tourists to spend their time and resources in the state.

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 2014-15, the balance of the Savings Reserve Account was $651.6 million. Session Law 2015-241 authorized the State Controller to make a transfer of $200 million from the General Fund's unreserved fund balance at June 30, 2015 to the Savings Reserve Account. The balance at the end of the fiscal year 2014-2015 was $851.6 million. This represents 4.13% 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 2014-15, the balance of the R&R Account was $11.6 million. Session Law 2015-241 authorized the State Controller to make a transfer of $400 million from the General Fund's unreserved fund balance to the R&R Account. This created a year-end balance of $411.6 million.

Debt Affordability Guidelines

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming 10 fiscal years. The Committee is also required to recommend other debt management policies consistent with sound management of the State's debt.

The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity. The 2015 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 $700 million in each of the next 10 years. The ratio of debt service to revenues will peak at 3.66%, 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.

The 2015 General Assembly enacting legislation requiring each constitution institution of the University of North Carolina to conduct an annual debt affordability study. This will require the universities to establish guidelines for maintaining prudent debt levels and a system for prioritizing university capital needs, when the needs exceed the new debt capacity. The Board of Governors shall advise the Governor and General Assembly annually on the estimated debt capacity for the upcoming five fiscal years.

Tax Policy

The 2013 General Assembly passed significant tax reform legislation for the State of North Carolina. The tax reform legislation provided for a corporate income tax rate reduction for the 2016 tax year provided the state reached a target of $20.2 billion in General Fund tax revenues. General fund tax revenues during the 2014-2015 fiscal year exceeded the target and the corporate income tax rate for the 2016 tax year will be reduced. Subsequent legislation by the 2015 General Assembly further reduces the rate for any subsequent tax years provided that the General Fund revenues collected during the preceding fiscal year exceeds $20.975 billion.

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, 2014. This was the 21st consecutive year (1994 to 2014) 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.

The North Carolina Teachers' and State Employees' Retirement System was awarded the Public Pension Standards Award for Funding and Administration for the 2014 calendar year in recognition for meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Acknowledgments

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

Respectfully submitted,

Linda Combs
State Controller

Certificate of Achievement

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Jeffrey R. Emer

Executive Director/CEO

ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

EXECUTIVE BRANCH

Council of State

Governor
Pat McCrory

Lieutenant Governor
Dan Forest*

Secretary of State
Elaine F. Marshall

State Auditor
Beth A. Wood

State Treasurer
Janet Cowell

State Superintendent of Public Instruction
Dr. June St. Clair Atkinson

Attorney General
Roy Cooper

Commissioner of Agriculture
Steven W. Troxler

Commissioner of Labor
Cherie Berry

Commissioner of Insurance
Wayne Goodwin

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Administration
Bill Daughtridge, Jr.

Commerce
John E. Skvarla, III

Cultural Resources
Susan W. Kluttz

Environment & Natural Resources
Donald R. van der Vaart

Health and Human Services
Dr. Aldona Wos

Public Safety
Frank L. Perry

Revenue
Lyons Gray

Transportation
Anthony J. Tata

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

General Assembly

Senate

President Pro Tempore
Philip Berger

Deputy Pres. Pro Tempore
Louis Pate

Majority Leader
Harry Brown

Minority Leader
Dan Blue

House of Representatives

Speaker
Tim Moore

Speaker Pro Tempore
Paul Stam

Majority Leader
Mike Hager

Minority Leader
Larry D. Hall

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

JUDICIAL BRANCH

North Carolina Supreme Court

Chief Justice
Mark D. Martin

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

Administrative
Office of the Courts
Judge Marion Warren
Director

Component Units

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

State of North Carolina Web Page
http://www.ncgov.com

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FINANCIAL SECTION

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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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, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 3 percent and 48 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 40 percent, 11 percent, and 1 percent, respectively, of the assets, net position, and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 4 percent, 3 percent, and 2 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the State Education Assistance Authority, which represent 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 5 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 7 percent, 8 percent, and 5 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.
- The financial statements of the North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent, 1 percent, and 1 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- 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.

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2015, 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, 2015, the State implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pension-an Amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 3, 2015, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 3, 2015

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, 2015. 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 $4.95 billion or 12.05% as a result of this year's operations. Net position of governmental activities and business-type activities increased by $3.26 billion (or 8.23%) and $1.69 billion (or 114.4%), respectively. At year-end, net position of governmental activities and business-type activities totaled $42.86 billion and $3.17 billion, respectively.
- Component units reported net position of $22.83 billion, an increase of $941.7 million or 4.3% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

Fund Financial Statements

- The fund balance of the General Fund increased from $1.55 billion at June 30, 2014 (as restated) to $2.51 billion at June 30, 2015, an increase of 61.44%. A significant decrease in individual income tax refunds, due to tax law changes, is the main contributor to the fund balance increase. Tax refunds were lower due to the elimination of many deductions and tax credits and taxpayers not adjusting their withholding amounts for the 2014 tax year.
- The fund balance of the Highway Fund increased 65.68% to $367.09 million at June 30, 2015. The increase is attributable, in part, to the issuance of $264.93 million in grant anticipation vehicle (GARVEE) bonds in May 2015.
- The fund balance of the Highway Trust Fund increased 29.45% to $1.13 billion at June 30, 2015. The increase is due, in part, 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 positive $1.14 billion at June 30, 2015 compared to negative $370.52 million at June 30, 2014. 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 State paid off the federal unemployment debt (amount that was advanced to finance State unemployment benefit payments) on April 30, 2015.
- Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 7.23% from the previous fiscal year to $1.97 billion. As required by law, the Lottery transferred $526.43 million to the General Fund to support educational programs.
- The net position of the N.C. Turnpike Authority (Authority) increased 21.51% to $335.96 million at June 30, 2015. Total operating revenues increased 24.21% to $30.71 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 6.94% to $1.5 billion.

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was $47.09 billion, an increase of 3.27% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for State highway projects ($1.58 billion), a toll road project ($263 million), new psychiatric hospitals ($226 million), and a new system for managing and administering social service benefits ($301 million).

Long-term Debt

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of $7.91 billion, a decrease of 1.21% from the previous fiscal year-end. The State issued $231.36 million in general obligation bonds and $264.93 million in GARVEE bonds for its governmental activities. Additionally, the State refinanced $309.2 million of its existing certificates of participation and limited obligation bonds to take advantage of lower interest rates. The refinancing is expected to reduce future debt service payments by approximately $21 million.
- In connection with the general obligation bonds, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 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 (Pension and other postemployment benefits trend information and General Fund budgetary schedule) and other supplementary information (combining financial statements) in addition to the basic financial statements. These components are described below.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Position (pages 52 and 53) 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 54 and 55) 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 76. 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 172 and 173).

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 216 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 76 of this report.

Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 1) pension plan and employer trend information related to the net pension liability, employer contributions, and investment returns, 2) other postemployment benefits trend information related to funding progress and employer contributions, and 3) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's overall assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $46.03 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 as of June 30, 2015 and 2014
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2015	**2014 (as restated)**	**2015**	**2014 (as restated)**	**2015**	**2014 (as restated)**	**2014-2015**
Current and other non-current assets	$ 10,865,267	$ 9,607,068	$3,962,905	$ 3,394,803	$ 14,828,172	$ 13,001,871	14.05%
Capital assets, net	45,804,367	44,388,041	1,287,441	1,213,315	47,091,808	45,601,356	3.27%
Total assets	56,669,634	53,995,109	5,250,346	4,608,118	61,919,980	58,603,227	5.66%
Total deferred outflows of resources	607,444	532,787	4,599	6,180	612,043	538,967	13.56%
Long-term liabilities	8,666,978	9,887,589	1,654,144	2,679,671	10,321,122	12,567,260	(17.87%)
Other liabilities	4,717,689	5,037,685	413,186	458,006	5,130,875	5,495,691	(6.64%)
Total liabilities	13,384,667	14,925,274	2,067,330	3,137,677	15,451,997	18,062,951	(14.45%)
Total deferred inflows of resources	1,030,957	0	21,666	0	1,052,623	—	NA
Net position:							
Net investment in capital assets	43,612,584	42,139,297	534,380	442,100	44,146,964	42,581,397	3.68%
Restricted	1,061,817	861,988	1,256	1,940	1,063,073	863,928	23.05%
Unrestricted	(1,812,947)	(3,398,663)	2,630,313	1,032,581	817,366	(2,366,082)	134.55%
Total net position	$ 42,861,454	$ 39,602,622	$3,165,949	$ 1,476,621	$ 46,027,403	$ 41,079,243	12.05%

The largest component of the State's net position ($44.15 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 ($1.06 billion). 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 $1.81 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 $6.87 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2015, $4.39 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, 2015, the State's governmental activities have significant unfunded liabilities for compensated absences of $456.7 million, net pension liabilities of $344.96 million, worker's compensation of $202.16 million, and a court judgment payable of $737.3 million (see Note 8 to the financial statements). The State of North Carolina implemented GASB Statements 68 and 71 this year (see Note 22 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 $4.95 billion or 12.05% (total primary government) from the prior fiscal year. The net position of the governmental activities increased $3.26 billion or 8.23% and business-type activities increased $1.69 billion or 114.4%. The following financial information was derived from the government-wide Statement of Activities:

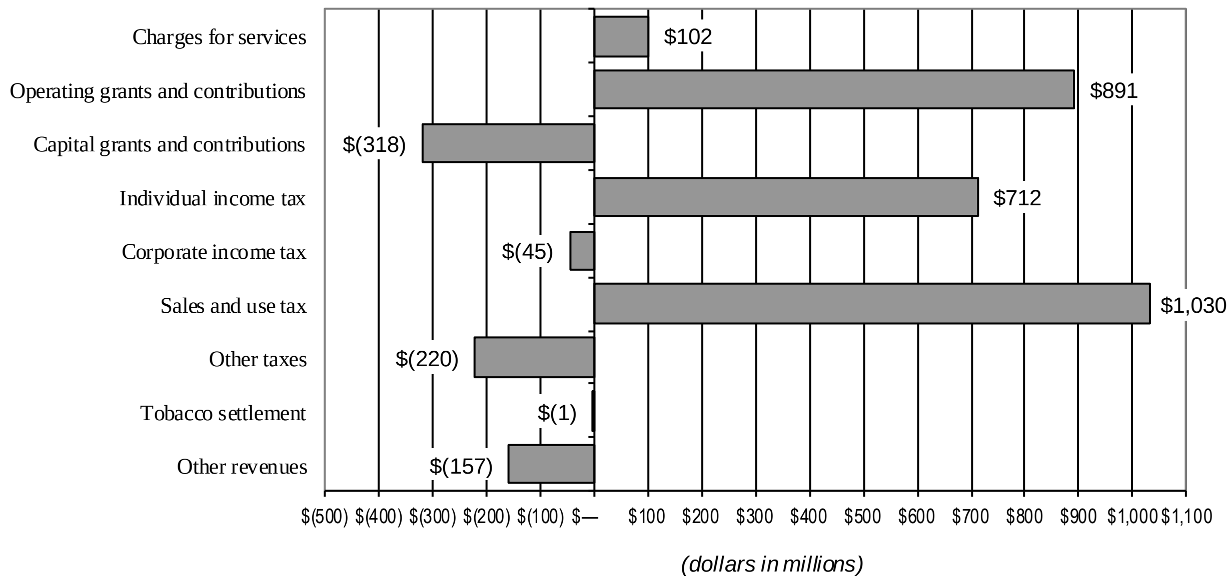
Changes in Net Position for the Fiscal Years Ended June 30, 2015 and 2014
(dollars* in *thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2015	2014 (as restated)	2015	2014 (as restated)	2015	2014 (as restated)	2014-2015
Revenues							
Program revenues							
Charges for services	$ 2,304,142	$ 2,202,085	$ 3,726,105	$ 3,670,399	$ 6,030,247	$ 5,872,484	2.69%
Operating grants and contributions	16,152,680	15,261,306	409,351	347,108	16,562,031	15,608,414	6.11%
Capital grants and contributions	942,238	1,260,306	21,251	11,942	963,489	1,272,248	(24.27%)
General revenues							
Taxes:							
Individual income tax	11,288,542	10,576,575	—	—	11,288,542	10,576,575	6.73%
Corporate income tax	1,272,879	1,318,091	—	—	1,272,879	1,318,091	(3.43%)
Sales and use tax	6,869,090	5,839,362	—	—	6,869,090	5,839,362	17.63%
Gasoline tax	1,945,462	1,907,803	—	—	1,945,462	1,907,803	1.97%
Franchise tax	556,786	888,815	—	—	556,786	888,815	(37.36%)
Highway use tax	653,931	596,801	—	—	653,931	596,801	9.57%
Insurance tax	529,927	476,402	—	—	529,927	476,402	11.24%
Beverage tax	360,280	342,784	—	—	360,280	342,784	5.10%
Tobacco products tax	279,795	273,426	—	—	279,795	273,426	2.33%
Other taxes	288,340	348,938	—	—	288,340	348,938	(17.37%)
Tobacco settlement	137,910	139,169	—	—	137,910	139,169	(0.90%)
Unrestricted investment earnings	20,139	19,452	—	—	20,139	19,452	3.53%
Miscellaneous	34,167	192,002	4	3	34,171	192,005	(82.20%)
Total revenues	43,636,308	41,643,317	4,156,711	4,029,452	47,793,019	45,672,769	4.64%
Expenses							
General government	1,159,012	1,080,982	—	—	1,159,012	1,080,982	7.22%
Primary and secondary education	10,224,967	9,772,994	—	—	10,224,967	9,772,994	4.62%
Higher education	3,859,549	3,901,543	—	—	3,859,549	3,901,543	(1.08%)
Health and human services	18,705,192	17,812,888	—	—	18,705,192	17,812,888	5.01%
Economic development	408,289	420,464	—	—	408,289	420,464	(2.90%)
Environment and natural resources	490,185	484,718	—	—	490,185	484,718	1.13%
Public safety, corrections and regulation	2,895,244	2,911,146	—	—	2,895,244	2,911,146	(0.55%)
Transportation	2,673,649	2,607,663	—	—	2,673,649	2,607,663	2.53%
Agriculture	165,735	191,242	—	—	165,735	191,242	(13.34%)
Interest on long-term debt	216,519	216,521	—	—	216,519	216,521	0.00%
Unemployment compensation	—	—	349,069	700,190	349,069	700,190	(50.15%)
N.C. State Lottery	—	—	1,450,494	1,341,219	1,450,494	1,341,219	8.15%
EPA Revolving Loan	—	—	22,965	27,789	22,965	27,789	(17.36%)
N.C. Turnpike Authority	—	—	89,004	88,278	89,004	88,278	0.82%
Regulatory programs	—	—	90,397	86,253	90,397	86,253	4.80%
Insurance programs	—	—	21,632	18,427	21,632	18,427	17.39%
North Carolina State Fair	—	—	14,975	13,957	14,975	13,957	7.29%
Other business-type activities	—	—	12,364	12,917	12,364	12,917	(4.28%)
Total expenses	40,798,341	39,400,161	2,050,900	2,289,030	42,849,241	41,689,191	2.78%
Increase (decrease) in net position before contributions and transfers	2,837,967	2,243,156	2,105,811	1,740,422	4,943,778	3,983,578	24.10%
Contributions to permanent funds	4,382	3,861	—	—	4,382	3,861	13.49%
Transfers	416,483	429,810	(416,483)	(429,810)	—	—	0.00%
Increase (decrease) in net position	3,258,832	2,676,827	1,689,328	1,310,612	4,948,160	3,987,439	24.09%
Net position - beginning - restated	39,602,622	36,925,795	1,476,621	166,009	41,079,243	37,091,804	10.75%
Net position - ending	$ 42,861,454	$ 39,602,622	$ 3,165,949	$ 1,476,621	$ 46,027,403	$ 41,079,243	12.05%

Governmental Activities. For fiscal year 2015, revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase in net position of $3.26 billion (or 8.23%) resulted for governmental activities. Total revenues increased by 4.79% ($1.99 billion) while total expenses increased more slowly at 3.55% ($1.4 billion). The increase 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 broadening of the sales and use tax base. A significant decrease in tax refunds due to the elimination of many deductions and tax credits and taxpayers not adjusting their withholding amounts for the 2014 tax year explains the increase in individual income tax revenues. Operating grants and contributions increased because of more spending in federally supported programs, such as Medicaid. However, capital grants and contributions decreased due to a reduction in federal funding for transportation.

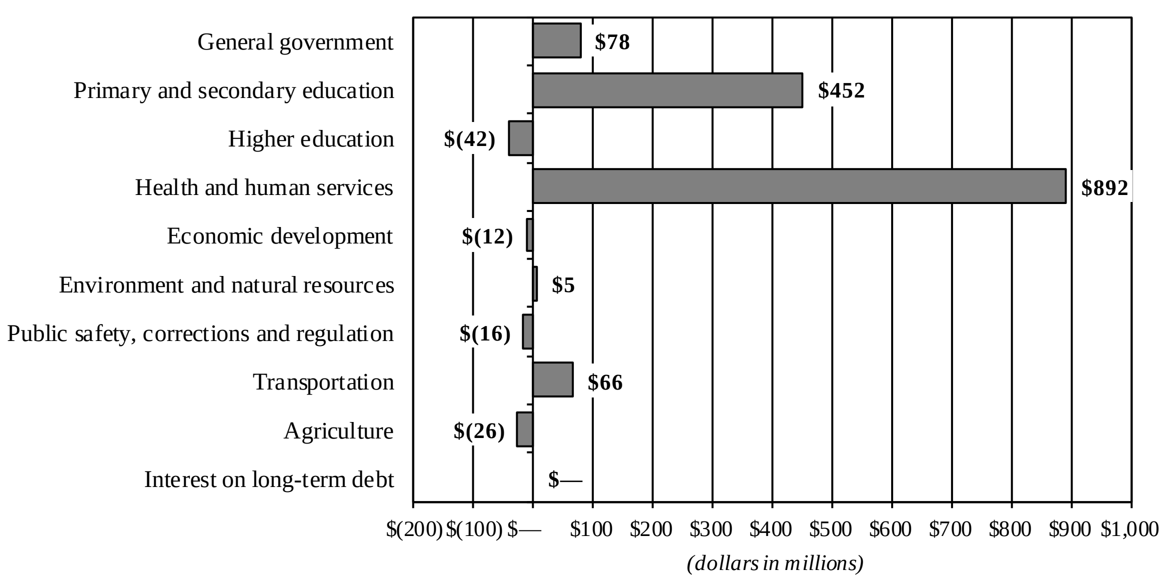
The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2014 and 2015:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2014 and 2015



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2014 and 2015:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2014 and 2015

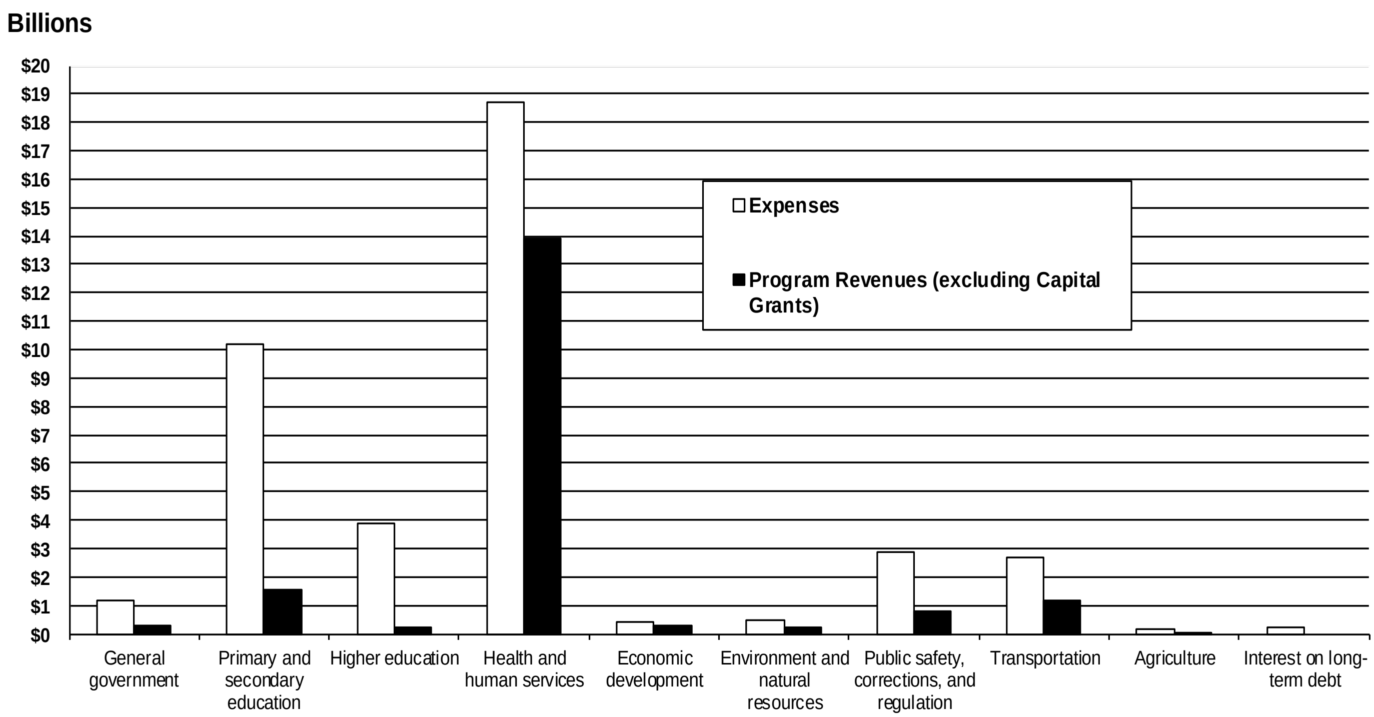


The increase in total expenses of 3.55% is attributable to spending increases in the State's two largest functional areas, health and human services and primary and secondary education. The increase in health and human services is due primarily to increased spending for Medicaid (the State's largest public assistance program). The growth in primary and secondary education is due to salary increases for State-funded local public school district employees, including teachers and instructional support, and other personnel. The pay for all educators was increased to at least $33 thousand annually. Higher education spending decreased during the current period due, in part, to smaller distributions of higher education bond proceeds in fiscal year 2015 compared to the prior year. Also, escheat funding for grants, loans, and scholarships for students was lower this year.

Medicaid is a federal entitlement program, which means individuals found eligible for Medicaid have legal rights to receive services and cannot be denied coverage by the State. In North Carolina, Medicaid is administered by the State and counties and financed with federal and state funds. Medicaid serves as the State's safety net program for eligible individuals who lose jobs and health insurance coverage. As such, it is sensitive to economic volatility. Higher growth rates occur during years of economic distress and when major Medicaid expansions are enacted. Lower growth rates occur when the Medicaid eligible population is stable or declining.

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

Expenses - Governmental Activities
For the Fiscal Year Ended June 30, 2015



Business-type Activities. Business-type activities reflect an overall increase in net position of $1.69 billion or 114.4%, primarily because of the financial results of the Unemployment Compensation Fund. The net position increase of $1.51 billion in the Unemployment Compensation Fund is explained by the drop in the State's unemployment rate and the implementation of Session Law 2013-2. The net position increase of $59.47 million for the N.C. Turnpike Authority is due primarily to transfers in from the Highway Trust Fund. The net position increase of $97.29 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, 2015, the State's governmental funds reported combined fund balances of $5.84 billion, an increase of 37.28% from the prior fiscal year-end (as restated). Of this amount, $688.17 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 substantial increase in combined fund balances is explained primarily by unspent debt proceeds reported in both the Highway Fund and other governmental funds ($559 million) and the fund balance increase in the General Fund (see below).

The major governmental funds are discussed individually below.

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund increased $954.72 million (or 61.44%) to $2.51 billion at June 30, 2015. A significant decrease in individual income tax refunds, due to tax law changes, is the main contributor to the fund balance increase. The 2013 Session of the General Assembly enacted the *Tax Simplification and Reduction Act* (Session Law 2013-360), which created a flat personal income tax, reduced personal and corporate income tax rates, and increased sales tax revenues through an expanded base.

Individual income tax revenues increased 6.73% to $11.29 billion. The significant decrease in tax refunds explains this increase (Note: income tax revenues are net of estimated refunds and uncollectible amounts). Tax law changes required all employees receiving wages in North Carolina to adjust the amount withheld by their employer based on a new calculation model for wages earned beginning January 1, 2014. The reduction in individual income tax refunds is due to a combination of the elimination of many deductions and tax credits as well as taxpayers not adjusting their withholding amounts for the 2014 tax year to reflect the altered withholding tables due to the tax reform. The result was more taxpayers owed taxes for the 2014 tax year than in previous tax years. Effective January 1, 2014, the State individual income tax rates changed from a multi-tiered bracket system with tax rates of 6%, 7%, and 7.75% to a flat rate of 5.8% for all individual income tax taxpayers in North Carolina. Effective January 1, 2015, the State individual income tax rate decreased to 5.75%.

Sales and use tax revenues increased 17.48% to $6.86 billion due to an improved economy and tax law changes that broadened the sales and use tax base. The improvements in the economy over the last year, as evidenced by the growing number of jobs in the state, have increased the disposable incomes of consumers. Corporate income tax revenues, which are highly volatile over the business cycle, decreased 4.58% to $1.27 billion. Tax law changes reduced the corporate income tax rate from 6% to 5% for tax years beginning in 2015.

One of the major budget drivers for the General Fund, historically, has been the Medicaid program. Medicaid enrollment increased 6% to 1.84 million individuals (or 18.3% of North Carolina's population). State appropriation expenditures for Medicaid increased 4.52% to $3.56 billion. Medicaid ended the fiscal year without a budget shortfall. Prior to the fiscal year 2014-15, Medicaid experienced shortfalls of nearly $1 billion over a three-year period. N.C. Tracks, the replacement system for the Medicaid Management Information System, went live on July 1, 2013. N.C. Tracks is the first multi-payer system in the country and the largest information technology project in North Carolina history. In April 2015, the system was certified by the Centers for Medicare and Medicaid Services'.

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 2014-15 was prepared approximately 18 months prior to the final budget existing on June 30, 2015. 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 2014 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 2014-15 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 2013-14 totaled $282.17 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 2.1% above budgeted revenue amounts in fiscal year 2014-15. This result occurred due to greater than anticipated individual income and corporate income collections. As corporate taxable profits accelerated and write-offs on losses from the recession dropped, corporate income tax collections surged over 20% above forecast expectations. For individual income taxes, the forecast did not fully anticipate the timing of significant State tax law changes enacted during fiscal year 2013-14, resulting in a shortfall in fiscal year 2013-14 and a surplus in fiscal year 2014-15. Sales and use tax collections, which comprise nearly 30% of total general fund revenue collections, finished on target in fiscal year 2014-15.

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 increased from $221.57 million at June 30, 2014 (as restated) to $367.09 million at June 30, 2015, an increase of 65.68%. The fund balance increase is attributable, in part, to the issuance of $264.93 million in grant anticipation revenue vehicle bonds (GARVEE's) in May 2015. 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, 2015, $193.89 million of the GARVEE proceeds were unspent.

Total revenues decreased 4.42% to $3.4 billion, mostly due to a decrease in federal funds. Total expenditures were $3.29 billion, a decrease of 5.67%. The Federal Highway and Transportation Funding Act of 2015 allocated federal apportionments in smaller increments spread out throughout the year, some of which were not received until the fiscal year 2016. As a result, transportation expenditures and federal revenues decreased from the previous year.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.53 million in 2004 to 9.94 million in 2014, an increase of 16.56%. According to the 2014 Maintenance and Operations Performance Analysis Report prepared by the N.C. Division of Highways, over a 10-year period (2004 to 2014), paved lane miles grew by 6.6% while bridge deck area grew by approximately 24%. During this same 10-year period, vehicle miles traveled increased by 11%. 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 April 30, 2015. Session Law 2015-2 revised the motor fuel tax formula. It sets the tax rate at 36 cents per gallon until December 31, 2015, 35 cents until July 1, 2016 and 34 cents until December 31, 2017. Beginning January 2018, the motor fuel tax computation will include factors for population change and the consumer price index.

Effective beginning in fiscal year 2016, Session Law 2015-241 revised the motor fuels tax distribution formula, directing 71% to the Highway Fund and 29% to the Highway Trust Fund. However, the law also increased license, registration and other fees attributable to the Highway Fund. The law also eliminates a transfer to the General Fund for the State Highway Patrol thereby increasing funding for maintenance, system preservation and the bridge program.

Highway Trust Fund

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet specific highway construction needs in North Carolina. Additionally, the Highway Trust Fund provides supplemental allocations for secondary road construction and pays the debt service on general obligation bonds issued for highway purposes.

The principal revenue sources of the Highway Trust Fund are highway use taxes, 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 budget legislation for fiscal years 2015 and 2014 reduced the designated transfer amount to the General Fund to $0. This did not change for fiscal years 2016 and 2017 under current legislation.

The fund balance of the Highway Trust Fund increased from $871.43 million at June 30, 2014 (as restated) to $1.13 billion at June 30, 2015, an increase of 29.45%. The fund balance increase was primarily due 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 5.56% to $1.25 billion, primarily due to growth in the highway use tax. Continued increases in vehicle sales, especially in the new vehicle segment, led to the increase. Total transportation expenditures were $835.52 million, an increase of 12.21%. The full implementation of the Strategic Prioritization Funding plan accounted for this increase.

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. Fully implemented as of 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. Effective beginning fiscal year 2016, Session Law 2015-241 revised the motor fuels tax distribution formula, directing 71% to the Highway Fund and 29% to the Highway Trust Fund. The law also increased the minimum highway use tax and certain motor vehicle fees in order to increase funding to the Strategic Prioritization Program.

Enterprise Funds

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

Unemployment Compensation Fund

The Unemployment Compensation Fund (Trust Fund) reported net position of positive $1.14 billion at June 30, 2015 compared to negative $370.52 million at June 30, 2014. The improvement in net position is explained by 1) the drop in the State's unemployment rate from 6.4% in June 2014 to 5.8% in June 2015, 2) an additional increase in the Federal Unemployment Tax Act (FUTA) tax, and 3) the implementation of Session Law 2013-2 in the prior fiscal year. The main impact of this law in the current fiscal year was the decrease to expenses due to the reduction in the maximum weekly benefit amount and the maximum duration of unemployment benefits. The Trust Fund's operating margin (operating revenues less operating expenses) increased 19.21% to $1.21 billion this year. Employer unemployment contributions decreased 4.83% to $1.54 billion in 2015 due to a one-time 1% contribution rate paid by employers (per Session Law 2013-2) that was in effect for 2014 but not 2015. Unemployment benefit expenses, both State and Federal, decreased 46.42% from $632.91 million in 2014 to $339.14 million in fiscal year 2015, due to a reduction in the number of new claimants and the effects of Session Law 2013-2 (described above).

In fiscal year 2014-15, nonoperating revenues increased 30.43% to $305.75 million, due to FUTA tax received in excess of outstanding debt. The excess FUTA tax does not need to be paid back to the federal government and can only be used to pay benefits.

Since February 2009, the State has borrowed from the U.S. Treasury to ensure the uninterrupted payment of State unemployment benefits. The State paid off the federal unemployment debt on April 30, 2015. At June 30, 2014, the balance of this debt was $980.99 million. For the tax year 2014, the FUTA tax increased by an additional 0.3% for a total increase of 1.2% because the State had an outstanding loan as of November 10, 2014. 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 $253.45 million (classified as gain on extinguishment of debt). A 1.5% FUTA tax increase will not be in effect for the next calendar year since the debt was paid off prior to November 10, 2015.

A 20% surcharge on State 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 Unemployment Insurance 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. The surcharge will end in January 2016.

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 $526.43 million to the General Fund in 2015 to support educational programs for the State. The amount transferred in 2014 was $503.14 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 2014-15, net ticket sales increased 7.23% from the previous fiscal year to $1.97 billion. Significant financial highlights include the following: awarded $1 million or more to an NCEL player for the 227th time; and released 50 new instant scratch-off games into the marketplace generating gross instant ticket sales of $1.29 billion.

The NCEL's 2015-16 budget provides for a projected $528.9 million transfer to the General Fund, representing a 1.71% increase from the previous year's budget. As established in legislation, lottery funds are to be distributed for educational purposes as follows:

1. 58.6% for noninstructional support personnel.
2. 14.8% to support reduction of class size in early grades and to support pre-kindergarten programs for at-risk four-year-olds who would otherwise not be served in high quality settings.
3. 18.9% for public school construction.
4. 7.8% 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 include 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. Total operating revenues increased 24.21% to $30.71 million primarily due to the increase in toll revenues. A possible southwest extension to the Triangle Expressway is in the study phase, and would extend the Expressway to I-40 in southern Wake County.
- The NCTA has completed the financing for the Monroe Connector System, a 19.7-mile toll road in Mecklenburg and Union counties. However, construction has been delayed due to litigation challenging the project's environmental documentation. Construction has resumed and will continue despite the notice of appeal.

Net position for NCTA increased 21.51% to $335.96 million in 2015. Operating loss (before capital contributions and transfers) improved 66.94% due to increases in toll revenue but still remains negative at $3.1 million. 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 2015, the N.C. General Assembly appropriated $49 million 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 6.94% to $1.5 billion in 2015. This increase in net position is due to the Loan Fund continuing to focus on streamlining its processes (requiring municipalities to follow specified timelines that resulted in more infrastructure projects being completed during the year) and prioritizing the spending of funds from the U.S. EPA (federal) capitalization grant for these projects (as opposed to funds from other sources). The amount of expenses paid (loaned) out during the year for existing infrastructure projects exceeded the total amount of principal repaid on the existing loans which resulted in an increase to notes receivable. Operating income was $16.47 million (operating revenues less operating expenses), and net non-operating revenues were $67.68 million. Net non-operating revenues consisted primarily of noncapital grants (federal capitalization grants). Noncapital grants decreased 3.87% to $85.48 million. Noncapital grants decreased primarily because the U.S. EPA requested that states focus on the first-in first-out methodology of loaning and drawing down federal funds for new infrastructure projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the State's investment in capital assets was $47.09 billion, an increase of 3.27% from the previous fiscal year-end (see table below).

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014 (as restated)	2015	2014 (as restated)	2015	2014 (as restated)
Land and permanent easements	$ 16,634,469	$ 16,221,268	$ 185,894	$ 160,571	$ 16,820,363	$ 16,381,839
Buildings	2,757,591	2,792,625	63,288	54,232	2,820,879	2,846,857
Machinery and equipment	604,889	589,323	6,833	8,160	611,722	597,483
Infrastructure:						
State highway system	22,850,001	21,897,786	—	—	22,850,001	21,897,786
NC toll road system	—	—	762,446	778,576	762,446	778,576
Other infrastructure	160,093	163,062	4,322	4,645	164,415	167,707
Computer software	307,400	288,109	987	12	308,387	288,121
Art, literature, and other artifacts	116,223	104,296	390	209	116,613	104,505
Construction in progress	2,049,311	2,040,771	263,281	206,910	2,312,592	2,247,681
Computer software in development	324,390	290,801	—	—	324,390	290,801
Total	$ 45,804,367	$ 44,388,041	$ 1,287,441	$ 1,213,315	$ 47,091,808	$ 45,601,356
Total percent change between fiscal years 2014 and 2015	**3.19 %**		**6.11 %**		**3.27 %**	

The largest component of capital assets is the state highway system. North Carolina has a 79,584 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- The N.C. Department of Transportation reported year-end construction in progress of $1.58 billion (including land improvements) for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of $263 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 $226 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 $301 million.

As further detailed in Note 21(E) to the financial statements, the State has commitments of $3.997 billion for the construction of highway infrastructure ($3.97 billion for governmental activities and $27 million for business-type activities), which are expected to be financed by gasoline tax collections, motor vehicle fees, toll collections, federal funds, and debt proceeds. Other commitments of $57 million for the construction of new mental health facilities are expected to be financed by special indebtedness bonds.

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 $7.91 billion, a decrease of 1.21% from the previous fiscal year-end (see table below).

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014 (as restated)	2015	2014 (as restated)	2015	2014 (as restated)
General obligation bonds	$ 3,469,220	$ 3,607,100	$ —	$ —	$ 3,469,220	$ 3,607,100
Special Indebtedness:						
Lease-purchase revenue bonds	2,000	4,125	—	—	2,000	4,125
Certificates of participation	151,745	247,615	—	—	151,745	247,615
Limited obligation bonds	2,095,550	2,132,085	—	—	2,095,550	2,132,085
GARVEE bonds	598,165	395,275	145,535	145,535	743,700	540,810
Revenue bonds	—	—	1,019,588	1,039,308	1,019,588	1,039,308
Notes payable	34,095	39,738	390,818	392,592	424,913	432,330
Total	$ 6,350,775	$ 6,425,938	$ 1,555,941	$ 1,577,435	$ 7,906,716	$ 8,003,373
Total percent change between fiscal years 2014 and 2015	**(1.17)%**		**(1.36)%**		**(1.21)%**	

During the 2014-15 fiscal year, the State issued $231.36 million in general obligation bonds and $264.93 million in grant anticipation revenue vehicle (GARVEE) bonds for its governmental activities. The general obligation bonds were issued pursuant to the Two-Thirds Bonds Act of 2014 (see next page) and will provide funds for the acquisition, construction, and various capital improvements for the State (governmental activities) and the University of North Carolina System (component unit). The proceeds of the GARVEE bonds (authorized by Session Law 2005-403) will be used to accelerate funding of various transportation projects identified in the current State Transportation Improvement Plan.

Additionally, the State refinanced $309.2 million of its existing certificates of participation and limited obligation bonds reported in governmental activities to take advantage of lower interest rates. The refinancing is expected to reduce future debt service payments by approximately $21 million.

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

The State's total long-term debt (bonds, special indebtedness, and notes payable) reported in governmental activities has increased significantly, rising from $3.48 billion in 2002 to $6.35 billion in 2015, in part due to large issuances of non-GO debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The N.C. Turnpike Authority (Authority), a business-type activity, had its first debt issuance in 2010. The Authority's long-term debt has increased from $691.56 million in 2010 to $1.56 billion in 2015.

The following is a summary of significant debt authorizations.

Connect NC Bond Act of 2015
The 2015-16 Session of the General Assembly authorized, subject to a vote of the qualified voters of the State, the issuance of $2 billion dollars of general obligation bonds of the State to be secured by a pledge of the faith and credit and taxing power of the State. The proceeds of the bonds will be used to fund the construction and furnishing of new facilities and the renovation and rehabilitation of existing facilities for the University of North Carolina System ($980 million), the North Carolina Community Colleges ($350 million), water and sewer loans systems ($309.5 million), the State's National Guard ($70 million), the Department of Agriculture and Consumer Services ($94 million), State parks and attractions ($100 million), and other purposes ($96.5 million). The question of the issuance of the bonds will be submitted to the voters at the time of the 2016 presidential primary on March 15, 2016.

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

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.

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

Rating Agency	Rating	Outlook
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 2014-15 fiscal year, the State issued general obligation bonds, GARVEE bonds, and limited obligation refunding bonds. In connection with the general obligation bonds, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The ratings assigned on the limited obligation refunding bonds were one level below triple-A. 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 2015 Session of the N.C. General Assembly enacted Session Law 2015-241 (2015 Appropriations Act), which appropriated $21.73 billion for fiscal year 2015-16. In addition, to traditional increases to cover growth in Medicaid, public schools, and universities, the budget:

- Modified State tax law to reduce individual income and corporate income tax rates, raised the standard deduction, restored medical deductions, and expanded the sales tax base (see Tax Changes below);
- Raised beginning teacher starting pay to $35,000 annually, provided other teacher pay increases and a $750 bonus pay for most other State employees, and addressed select compensation needs;
- Increased funds in the Saving Reserve Account to $1.1 billion;
- Established a Medicaid Transformation Reserve of $225 million over the biennium to transition the Medicaid program from traditional fee-for-service to a capitated, managed care program; and
- Created two new cabinet-level departments and consolidated and reorganized other programs (see Government Reorganizations below).

<u>Tax Changes</u>

Individual income tax changes included allowing federally deductible medical and dental expenses to be deductible on state tax returns as of tax year 2015, increasing the standard deduction by 3.3% as of tax year 2016, and reducing the tax rate from 5.75% to 5.499% as of tax year 2017. Changes to the corporate income tax included repealing the sunset on the revenue "trigger" for reducing the tax rate from 4% to 3% and phasing in sales-only apportionment (the method over which multistate corporations are taxed) over three years. The budget also repealed the state privilege license tax on banks while reducing corporate tax expenditures related to banks and bank holding companies. Other significant changes to the tax code included extending the sales and use tax to include installation, repair, and maintenance of currently taxable tangible property, enacting a modified historic preservation tax credit, and implementing revenue-neutral changes to simplify the corporate franchise tax.

<u>Government Reorganizations</u>

The legislature enacted major changes for certain departments and programs:

- Natural and Cultural Resources – Roughly one-half of the budget ($88.3 million) for the former Department of Environment and Natural Resources (DENR) is transferred to the Department of Cultural Resources, consolidating the State's natural and cultural resources programs and services within a newly constituted Department of Natural and Cultural Resources. Programs and services remaining in DENR are now housed in the newly-named Department of Environmental Quality.
- Military and Veteran's Affairs – Various veteran and military programs and supports are consolidated into a newly created cabinet-level Department of Military and Veterans Affairs.
- Information Technology (IT) – A new Department of Information Technology is established to begin the process of consolidating State IT functions. The new cabinet level agency is responsible for planning, security and other overall IT management functions.

Escheat 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, 2015, the Escheats Fund carried a fund balance of $604.54 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 $1.06 billion which has been reported since June 1971, but has been appropriated by the legislature from the Escheat Fund principal over the last 12 years.

Session Law 2015-241 amended the North Carolina General Statutes (NCGS) with respect to the Escheat Fund. Subsection (b)(12) of NCGS § 147-69.2 now contains an express statement that "[i]t is the intent of the General Assembly that the Escheat Fund provide a perpetual and sustainable source of funding for the purposes authorized by the State Constitution." Subsection (b)(12) was also amended by adding a provision requiring the Department of State Treasurer to annually engage a third-party professional to conduct a valuation and projection of the financial status of the Escheat Fund ("Annual Report") in order to assess the utilization of the Escheat Fund as an educational endowment fund. From the findings of the Annual Report, the Treasurer shall recommend to the Governor and Legislative Leadership an annual amount available for the funding of scholarships, loans, and grants from the Escheat Fund.

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 choice by differentiating plan options, to further encourage member engagement in healthy lifestyles, and to constrain future State Health Plan costs. The new benefits will be effective January 1, 2016. In August 2015, the SHP Board of Trustees approved a 2.83% premium increase for most employee and dependent coverage tiers effective January 1, 2016, based on the required premium increase calculated in the Plan's second quarter 2015 forecast. Also, Session Law 2015-241 increases the State's employer contribution by 3.47% effective January 1, 2016. The increase was approved by the Executive Administrator based on authority delegated by the SHP Board of Trustees in August 2015.

REQUESTS FOR INFORMATION

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

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Basic Financial Statements

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Government-wide Financial Statements

STATEMENT OF NET POSITION

June 30, 2015
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 4,868,005	$ 974,161	$ 5,842,166	$ 2,951,473
Investments (Note 3)	331,309	372,911	704,220	3,682,534
Securities lending collateral (Note 3)	500,904	91,455	592,359	—
Receivables, net (Note 4)	3,289,267	610,443	3,899,710	1,456,466
Due from component units (Note 18)	529	—	529	5,672
Due from primary government (Note 18)	—	—	—	230,157
Internal balances	11,359	(11,359)	—	—
Inventories	186,363	1,972	188,335	136,358
Prepaid items	6,027	14,046	20,073	108,875
Advances to component units	4,066	—	4,066	—
Notes receivable, net	79,610	1,081,067	1,160,677	3,228,709
Investment in joint venture	—	—	—	127,796
Equity interest in component unit	149,095	—	149,095	—
Securities held in trust	45,083	—	45,083	—
Net pension asset (Note 12)	5,633	—	5,633	—
Restricted/designated cash and cash equivalents (Note 3)	713,877	3,667	717,544	2,001,678
Restricted investments (Note 3)	674,140	824,542	1,498,682	6,575,777
Restricted due from primary government (Note 18)	—	—	—	16,067
Restricted due from component units (Note 18)	—	—	—	1,173
Capital assets-nondepreciable (Note 5)	19,124,393	449,565	19,573,958	1,926,159
Capital assets-depreciable, net (Note 5)	26,679,974	837,876	27,517,850	14,269,762
Total Assets	56,669,634	5,250,346	61,919,980	36,718,656
Deferred Outflows of Resources				
Accumulated decrease in fair value of hedging derivatives	—	—	—	134,828
Deferred loss on refunding	118,999	—	118,999	32,061
Forward funded state aid	118,451	—	118,451	—
Deferred outflows for pensions (Note 12)	369,994	4,599	374,593	321,290
Other deferred outflows	—	—	—	3,512
Total Deferred Outflows of Resources	607,444	4,599	612,043	491,691
Liabilities				
Accounts payable and accrued liabilities	1,528,361	171,529	1,699,890	1,241,368
Medical claims payable	885,588	—	885,588	285,033
Unemployment benefits payable	—	2,851	2,851	—
Tax refunds payable	977,607	—	977,607	—
Obligations under securities lending	500,904	91,455	592,359	—
Interest payable	51,581	113,015	164,596	62,434
Short-term debt (Note 6)	—	—	—	73,212
Due to component units (Note 18)	246,224	—	246,224	6,845
Due to primary government (Note 18)	—	—	—	529
Unearned revenue	445,672	32,297	477,969	263,211
Advance from primary government	—	—	—	4,066
Obligations under reverse repurchase agreements	—	—	—	12,376
Deposits payable	4,054	2,039	6,093	20,803
Funds held for others	77,698	—	77,698	2,605,527
Hedging derivatives liability (Note 7)	—	—	—	134,828
Long-term liabilities (Note 8):				
Due within one year	701,184	15,739	716,923	616,856
Due in more than one year	7,965,794	1,638,405	9,604,199	8,035,031
Total Liabilities	13,384,667	2,067,330	15,451,997	13,362,119
Deferred Inflows of Resources				
Deferred state aid	—	—	—	121,344
Deferred inflows for pensions (Note 12)	1,030,957	21,666	1,052,623	897,285
Other deferred inflows	—	—	—	1,588
Total Deferred Inflows of Resources	1,030,957	21,666	1,052,623	1,020,217

STATEMENT OF NET POSITION

June 30, 2015 *Exhibit A-1*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Position				
Net investment in capital assets	43,612,584	534,380	44,146,964	11,434,050
Restricted for:				
Nonexpendable:				
Environment and natural resources	101,914	—	101,914	—
Higher education	513	—	513	2,486,637
Expendable:				
Primary and secondary education	2,646	—	2,646	—
Higher education	3,823	—	3,823	3,874,609
Higher education student aid	605,810	—	605,810	—
Health and human services	110,418	—	110,418	37
Economic development	26,937	—	26,937	777,710
Environment and natural resources	38,782	—	38,782	—
Public safety, corrections, and regulation	68,059	—	68,059	—
Transportation	3,075	—	3,075	—
Debt service	83,855	—	83,855	—
Capital projects/repairs and renovations	5,034	—	5,034	—
Other purposes	10,951	1,256	12,207	—
Unrestricted	(1,812,947)	2,630,313	817,366	4,254,968
Total Net Position	$ 42,861,454	$ 3,165,949	$ 46,027,403	$ 22,828,011

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government					
Governmental Activities					
General government	$ 1,159,012	$ 253,506	$ 23,371	$ 5,288	$ (876,847)
Primary and secondary education	10,224,967	9,492	1,560,525	—	(8,654,950)
Higher education	3,859,549	165,403	25,836	—	(3,668,310)
Health and human services	18,705,192	320,100	13,565,387	2	(4,819,703)
Economic development	408,289	18,840	248,758	—	(140,691)
Environment and natural resources	490,185	159,862	84,770	27,031	(218,522)
Public safety, corrections, and regulation	2,895,244	602,869	190,317	1,645	(2,100,413)
Transportation	2,673,649	742,586	423,164	901,911	(605,988)
Agriculture	165,735	31,484	30,552	6,361	(97,338)
Interest on long-term debt	216,519	—	—	—	(216,519)
Total Governmental Activities	40,798,341	2,304,142	16,152,680	942,238	(21,399,281)
Business-type Activities					
Unemployment Compensation	349,069	1,552,934	305,854	—	1,509,719
N.C. State Lottery	1,450,494	1,977,486	431	—	527,423
EPA Revolving Loan	22,965	23,955	83,157	—	84,147
N.C. Turnpike Authority	89,004	30,710	14,351	9,733	(34,210)
Regulatory programs	90,397	96,155	1,074	—	6,832
Insurance programs	21,632	18,641	2,379	—	(612)
North Carolina State Fair	14,975	14,985	926	11,462	12,398
Other business-type activities	12,364	11,239	1,179	56	110
Total Business-type Activities	2,050,900	3,726,105	409,351	21,251	2,105,807
Total Primary Government	$ 42,849,241	$ 6,030,247	$ 16,562,031	$ 963,489	$ (19,293,474)
Component Units					
University of North Carolina System	$ 10,974,386	$ 7,370,709	$ 1,509,483	$ 95,553	$ (1,998,641)
Community Colleges	2,184,933	307,812	876,847	216,010	(784,264)
State Health Plan	3,051,518	2,982,001	73,246	—	3,729
Other component units	855,310	463,498	391,928	3,892	4,008
Total Component Units	$ 17,066,147	$ 11,124,020	$ 2,851,504	$ 315,455	$ (2,775,168)

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2015 — *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Changes in Net Position				
Net (expense) revenue	$ (21,399,281)	$ 2,105,807	$ (19,293,474)	$ (2,775,168)
General Revenues:				
Taxes:				
Individual income tax	11,288,542	—	11,288,542	—
Corporate income tax	1,272,879	—	1,272,879	—
Sales and use tax	6,869,090	—	6,869,090	—
Gasoline tax	1,945,462	—	1,945,462	—
Franchise tax	556,786	—	556,786	—
Highway use tax	653,931	—	653,931	—
Insurance tax	529,927	—	529,927	—
Beverage tax	360,280	—	360,280	—
Tobacco products tax	279,795	—	279,795	—
Other taxes	288,340	—	288,340	—
Tobacco settlement	137,910	—	137,910	—
Unrestricted investment earnings	20,139	—	20,139	—
State aid	—	—	—	3,621,540
Miscellaneous	34,167	4	34,171	2,450
Contributions to permanent funds	4,382	—	4,382	—
Contributions to endowments	—	—	—	92,877
Transfers	416,483	(416,483)	—	—
Total general revenues, contributions, and transfers	24,658,113	(416,479)	24,241,634	3,716,867
Change in net position	3,258,832	1,689,328	4,948,160	941,699
Net position — July 1, as restated (Note 23)	39,602,622	1,476,621	41,079,243	21,886,312
Net position — June 30	$ 42,861,454	$ 3,165,949	$ 46,027,403	$ 22,828,011

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015 — *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)	$ 2,512,153	$ 384,924	$ 1,121,311	$ 757,191	$ 4,775,579
Investments (Note 3)	5,651	—	—	294,700	300,351
Securities lending collateral (Note 3)	331,478	38,303	68,852	57,201	495,834
Receivables, net: (Note 4)					
Taxes receivable	1,891,382	144,511	50,872	2,486	2,089,251
Accounts receivable	198,386	27,633	82	21,423	247,524
Intergovernmental receivable	888,871	33,636	710	1,413	924,630
Interest receivable	2,674	254	448	611	3,987
Contributions receivable	78	—	—	—	78
Other receivables	—	3,801	—	—	3,801
Due from other funds (Note 10)	11,943	11,148	230	8,337	31,658
Due from component units (Note 18)	8	—	—	—	8
Inventories	76,938	83,918	—	25,338	186,194
Advances to other funds (Note 10)	—	—	25,287	—	25,287
Advances to component units	—	4,066	—	—	4,066
Notes receivable	34,336	803	51	44,420	79,610
Securities held in trust	393	491	—	44,199	45,083
Restricted/designated cash and cash equivalents (Note 3)	475,412	—	—	238,465	713,877
Restricted investments (Note 3)	—	193,888	—	480,252	674,140
Total Assets	6,429,703	927,376	1,267,843	1,976,036	10,600,958
Deferred Outflows of Resources					
Forward funded state aid	39,461	—	—	78,990	118,451
Total Assets and Deferred Outflows	$ 6,469,164	$ 927,376	$ 1,267,843	$ 2,055,026	$ 10,719,409
Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable	$ 148,554	$ 281,591	$ 48,384	$ 31,901	$ 510,430
Accrued payroll	895	13,971	—	77	14,943
Intergovernmental payable	663,511	155,482	8,724	6,217	833,934
Claims payable	—	—	—	52,500	52,500
Medical claims payable	885,588	—	—	—	885,588
Tax refunds payable	965,642	8,974	2,991	—	977,607
Obligations under securities lending	331,478	38,303	68,852	57,201	495,834
Due to fiduciary funds (Note 10)	86,537	18,216	—	—	104,753
Due to other funds (Note 10)	43,581	3,939	10,754	311	58,585
Due to component units (Note 18)	230,157	—	—	16,067	246,224
Unearned revenue	414,096	14,731	105	8,736	437,668
Deposits payable	4,051	—	—	3	4,054
Funds held for others	10,428	22,965	—	44,305	77,698
Total Liabilities	3,784,518	558,172	139,810	217,318	4,699,818
Deferred Inflows of Resources					
Unavailable revenue	176,103	2,113	—	3,254	181,470
Fund Balances (Note 11)					
Nonspendable	83,079	83,918	—	127,965	294,962
Restricted	173,575	196,922	—	1,055,811	1,426,308
Committed	1,447,011	86,251	1,128,033	649,667	3,310,962
Assigned	116,705	—	—	1,011	117,716
Unassigned	688,173	—	—	—	688,173
Total Fund Balances	2,508,543	367,091	1,128,033	1,834,454	5,838,121
Total Liabilities, Deferred Inflows and Fund Balances	$ 6,469,164	$ 927,376	$ 1,267,843	$ 2,055,026	$ 10,719,409

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, 2015 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 5,838,121
Amounts reported for governmental activities in the Statement of Net Position are different because:		
– **Capital assets** used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds)	$ 46,379,778	
Less: Accumulated depreciation (excluding internal service funds)	(686,101)	
Net capital assets		45,693,677
– **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.		181,470
– **Equity interest in component unit** is not a financial resource and, therefore, is not reported in the funds.		149,095
– **Net pension asset**, resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 12).		5,633
– **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.		118,999
– **Deferred outflows for pensions** (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 12).		366,137
– **Long-term debt instruments**, such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 8). Also, unamortized debt premiums are reported in the Statement of Net Position but are not reported in the funds. These balances consist of:		
General obligation bonds payable	(3,469,220)	
Lease-purchase revenue bonds payable	(2,000)	
Certificates of participation payable	(151,745)	
Limited obligation bonds payable	(2,095,550)	
GARVEE bonds payable	(598,165)	
Unamortized debt premiums (to be amortized as interest expense)	(550,393)	
Notes payable	(34,095)	
Capital leases payable (excluding internal service funds)	(17,671)	
Net long-term debt		(6,918,839)
– **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 8 as applicable) consist of:		
Accrued interest payable	(51,581)	
Compensated absences (excluding internal service funds)	(450,377)	
Obligations for workers' compensation	(202,163)	
Death benefit payable	(420)	
Pollution remediation payable	(6,421)	
Claims and judgments payable	(737,303)	
Net pension liability (excluding internal service funds)	(341,949)	
Total other liabilities		(1,790,214)
– **Deferred inflows for pensions** (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 12).		(1,019,797)
– **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).		237,172
Total net position - governmental activities (see Exhibit A-1)		$ 42,861,454

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, 2015 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Individual income tax	$ 11,288,542	$ —	$ —	$ —	$ 11,288,542
Corporate income tax	1,270,985	—	—	—	1,270,985
Sales and use tax	6,858,523	—	—	7,779	6,866,302
Gasoline tax	—	1,440,833	478,847	25,268	1,944,948
Franchise tax	552,221	—	—	—	552,221
Highway use tax	—	—	653,931	—	653,931
Insurance tax	529,927	—	—	—	529,927
Beverage tax	360,138	—	—	—	360,138
Tobacco products tax	277,830	—	—	—	277,830
Other taxes	180,823	—	—	106,890	287,713
Federal funds	15,293,459	1,125,932	—	89,851	16,509,242
Local funds	161,514	27,791	907	5,750	195,962
Investment earnings	21,881	4,200	6,973	10,520	43,574
Interest earnings on loans	2,192	—	112	560	2,864
Sales and services	164,596	3,200	—	150,615	318,411
Rental and lease of property	10,486	6,437	2,037	3,440	22,400
Fees, licenses, and fines	745,671	624,258	102,875	171,646	1,644,450
Tobacco settlement	138,622	—	—	—	138,622
Contributions, gifts, and grants	39,088	32,032	52	50,578	121,750
Funds escheated	—	—	—	165,062	165,062
Federal recovery funds	84,429	125,063	—	—	209,492
Miscellaneous	128,690	5,426	368	40,023	174,507
Total revenues	38,109,617	3,395,172	1,246,102	827,982	43,578,873
Expenditures					
Current:					
General government	1,097,121	—	—	45,042	1,142,163
Primary and secondary education	10,213,160	—	—	—	10,213,160
Higher education	3,747,699	—	—	102,412	3,850,111
Health and human services	18,704,476	—	—	77,317	18,781,793
Economic development	393,257	—	—	19,526	412,783
Environment and natural resources	306,815	—	—	147,787	454,602
Public safety, corrections, and regulation	2,659,020	—	—	272,676	2,931,696
Transportation	—	3,209,008	835,524	—	4,044,532
Agriculture	157,423	—	—	20,859	178,282
Capital outlay	—	—	—	113,689	113,689
Debt service:					
Principal retirement	450,120	62,244	46,266	4,190	562,820
Interest and fees	270,442	19,434	13,495	62	303,433
Debt issuance costs	2,581	—	—	467	3,048
Total expenditures	38,002,114	3,290,686	895,285	804,027	42,992,112
Excess revenues over (under) expenditures	107,503	104,486	350,817	23,955	586,761
Other Financing Sources (Uses)					
General obligation bonds issued	—	—	—	231,360	231,360
GARVEE bonds issued	—	264,930	—	—	264,930
Refunding bonds issued	299,020	—	—	—	299,020
Other debt issued	1,280	64	—	278	1,622
Premium on debt issued	52,514	35,611	—	29,381	117,506
Payment to refunded bond escrow agent	(349,828)	—	—	—	(349,828)
Sale of capital assets	4,543	8,570	158	161	13,432
Insurance recoveries	941	8,085	—	13	9,039
Transfers in (Note 10)	931,364	31,918	—	81,066	1,044,348
Transfers out (Note 10)	(92,619)	(308,140)	(94,369)	(137,532)	(632,660)
Total other financing sources (uses)	847,215	41,038	(94,211)	204,727	998,769
Net change in fund balances	954,718	145,524	256,606	228,682	1,585,530
Fund balances — July 1, as restated (Note 23)	1,553,825	221,567	871,427	1,605,772	4,252,591
Fund balances — June 30	$ 2,508,543	$ 367,091	$ 1,128,033	$ 1,834,454	$ 5,838,121

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, 2015 — *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ 1,585,530
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)	$ 2,278,559	
Less: Depreciation expense (excluding internal service funds)	(818,693)	
Net capital outlay adjustment		1,459,866
– **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.		(57,899)
– **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.		5,282
– **Retirement Contributions** (excluding internal service funds) to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities.		350,982
– **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds, notes, similar debt, and capital leases issued	(497,912)	
Refunding bonds issued	(299,020)	
Premiums on debt issued	(117,506)	
Principal repayments:		
Bonds, notes, and similar debt	561,342	
Capital leases (excluding internal service funds)	1,478	
Payments to escrow agent for refundings	349,828	
Net debt adjustments		(1,790)
– **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.		(997)
– **Change in equity interest** of component unit resulting from changes in stockholder's equity are not current financial resources, and therefore, are not recognized in the funds.		2,127
– **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	3,154	
Compensated absences (excluding internal service funds)	(35,654)	
Workers' compensation	(24,449)	
Death benefit	70	
Pension expense (excluding internal service funds)	(140,707)	
Pollution remediation	583	
Claims and judgments	4,400	
Amortization of deferred amounts	83,783	
Net expense accruals		(108,820)
– **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).		24,551
Change in net position - governmental activities (see Exhibit A-2)		$ 3,258,832

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2015
(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)	$ 609,102	$ 221,369	$ 49,005	$ 4,597
Investments (Note 3)	—	195,728	5,136	—
Securities lending collateral (Note 3)	9,161	34,042	5,050	31,590
Receivables: (Note 4)				
Accounts receivable, net	116,793	—	8,655	13,289
Intergovernmental receivable	4,917	27	—	318
Interest receivable	—	3,811	41	—
Premiums receivable	—	—	—	—
Contributions receivable, net	444,740	—	—	—
Notes receivable	—	77,991	—	—
Due from other funds (Note 10)	20,039	—	5,275	55
Due from component units (Note 18)	—	—	—	—
Inventories	—	—	—	1,403
Prepaid items	—	—	651	—
Restricted cash and cash equivalents (Note 3)	—	—	—	—
Total current assets	1,204,752	532,968	73,813	51,252
Noncurrent Assets				
Investments (Note 3)	—	—	56,718	—
Receivables: (Note 4)				
Contributions receivable, net	12,177	—	—	—
Notes receivable	—	1,002,919	—	—
Prepaid items	—	—	655	9,268
Restricted/designated cash and cash equivalents (Note 3)	—	—	—	3,487
Restricted investments (Note 3)	—	—	—	824,542
Capital assets-nondepreciable (Note 5)	—	—	—	437,818
Capital assets-depreciable, net (Note 5)	—	126	1,832	762,446
Total noncurrent assets	12,177	1,003,045	59,205	2,037,561
Total Assets	1,216,929	1,536,013	133,018	2,088,813
Deferred Outflows of Resources				
Deferred outflows for pensions	—	399	1,471	94
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	18,408	6	48,952	12,266
Accrued payroll	—	—	467	—
Intergovernmental payable	48,279	—	—	3,355
Claims payable	—	—	—	—
Unemployment benefits payable	2,851	—	—	—
Obligations under securities lending	9,161	34,042	5,050	31,590
Interest payable	—	—	—	37,692
Due to fiduciary funds (Note 10)	—	—	—	4,727
Due to other funds (Note 10)	256	24	10,404	625
Unearned revenue	586	—	—	—
Deposits payable	—	—	—	2,018
Annuity and life income payable (Note 8)	—	—	5,136	—
Notes payable (Note 8)	—	—	—	—
Capital leases payable (Note 8)	—	—	—	—
Bonds payable (Note 8)	—	—	—	8,200
Compensated absences (Note 8)	—	68	192	9
Total current liabilities	79,541	34,140	70,201	100,482

Exhibit B-3

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 90,088	$ 974,161	$ 92,426
101,776	302,640	30,958
11,612	91,455	5,070
1,379	140,116	19,329
1,478	6,740	—
63	3,915	13
2,755	2,755	654
—	444,740	—
—	77,991	—
—	25,369	13,472
—	—	521
569	1,972	169
3,375	4,026	6,027
180	180	—
213,275	2,076,060	168,639
13,553	70,271	—
—	12,177	—
157	1,003,076	—
97	10,020	—
—	3,487	—
—	824,542	—
11,747	449,565	3,396
73,472	837,876	107,294
99,026	3,211,014	110,690
312,301	5,287,074	279,329
2,635	4,599	3,857
2,936	82,568	8,820
78	545	1,369
5	51,639	—
31,801	31,801	1,612
—	2,851	—
11,612	91,455	5,070
—	37,692	—
—	4,727	—
132	11,441	473
31,711	32,297	8,004
21	2,039	—
—	5,136	—
998	998	—
—	—	72
—	8,200	—
1,136	1,405	884
80,430	364,794	26,304

STATEMENT OF NET POSITION
PROPRIETARY FUNDS (Continued)

June 30, 2015

(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	—	—	—	75,323
Advances from other funds (Note 10)	—	—	—	25,287
Annuity and life income payable (Note 8)	—	—	56,718	—
Notes payable (Note 8)	—	—	—	372,877
Capital leases payable (Note 8)	—	—	—	—
Bonds payable, net (Note 8)	—	—	—	1,178,585
Compensated absences (Note 8)	—	585	1,570	73
Net pension liability (Note 8)	—	337	1,301	69
Total noncurrent liabilities	—	922	59,589	1,652,214
Total Liabilities	79,541	35,062	129,790	1,752,696
Deferred Inflows of Resources				
Deferred inflows for pensions	—	1,229	4,699	251
Net Position				
Net investment in capital assets	—	126	1,832	465,144
Restricted for:				
Capital outlay	—	—	—	—
Other purposes	—	—	—	—
Unrestricted	1,137,388	1,499,995	(1,832)	(129,184)
Total Net Position	$ 1,137,388	$ 1,500,121	$ —	$ 335,960

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

Exhibit B-3

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
249	249	—
—	75,323	—
—	25,287	—
—	56,718	—
16,943	389,820	—
—	—	93
—	1,178,585	—
5,108	7,336	5,442
4,239	5,946	3,015
26,539	1,739,264	8,550
106,969	2,104,058	34,854
15,487	21,666	11,160
67,278	534,380	110,525
180	180	—
1,076	1,076	—
123,946	2,630,313	126,647
$ 192,480	$ 3,165,949	$ 237,172

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

For the Fiscal Year Ended June 30, 2015

(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	$ 1,542,264	$ —	$ —	$ —
Federal funds	10,670	—	—	—
Sales and services	—	4,177	1,972,215	449
Student tuition and fees, net	—	—	—	—
Interest earnings on loans	—	19,777	—	—
Rental and lease earnings	—	—	—	26
Fees, licenses, and fines	—	—	5,200	3,956
Toll revenues	—	—	—	26,265
Insurance premiums	—	—	—	—
Miscellaneous	—	1	71	14
Total operating revenues	1,552,934	23,955	1,977,486	30,710
Operating Expenses				
Personal services	—	5,695	18,738	1,351
Supplies and materials	—	125	1,108	9,807
Services	—	1,431	194,795	2,310
Cost of goods sold	—	—	—	449
Depreciation	—	31	568	16,130
Lottery prizes	—	—	1,231,238	—
Claims	—	—	—	—
Unemployment benefits	339,139	—	—	—
Insurance and bonding	—	13	43	386
Other	—	194	3,962	3,375
Total operating expenses	339,139	7,489	1,450,452	33,808
Operating income (loss)	1,213,795	16,466	527,034	(3,098)
Nonoperating Revenues (Expenses)				
Noncapital grants	3,225	85,477	—	—
Noncapital gifts, net	—	—	—	—
Investment earnings	3,053	(2,320)	408	2,961
Interest and fees	(9,825)	—	—	(55,117)
Insurance recoveries	—	—	—	15
Grants, aid and subsidies	—	(15,411)	—	—
Gain (loss) on sale of equipment	—	—	(17)	—
Gain on extinguishment of debt	253,453	—	—	—
Federal interest subsidy on debt	—	—	—	11,375
Miscellaneous	46,018	(65)	2	(79)
Total nonoperating revenues (expenses)	295,924	67,681	393	(40,845)
Income (loss) before contributions and transfers	1,509,719	84,147	527,427	(43,943)
Capital contributions	—	—	—	9,733
Transfers in (Note 10)	—	14,584	—	93,680
Transfers out (Note 10)	(1,808)	(1,441)	(527,427)	—
Change in net position	1,507,911	97,290	—	59,470
Net position — July 1, as restated (Note 23)	(370,523)	1,402,831	—	276,490
Net position — June 30	$ 1,137,388	$ 1,500,121	$ —	$ 335,960

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

Exhibit B-4

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ —	$ 1,542,264	$ —
—	10,670	—
1,788	1,978,629	291,574
15	15	—
—	19,777	—
8,266	8,292	64
111,050	120,206	1,648
—	26,265	—
18,641	18,641	21,825
1,260	1,346	386
141,020	3,726,105	315,497
72,650	98,434	117,973
3,322	14,362	23,246
31,701	230,237	81,606
365	814	455
4,418	21,147	19,532
—	1,231,238	—
16,561	16,561	978
—	339,139	—
4,056	4,498	17,409
5,564	13,095	39,569
138,637	1,969,525	300,768
2,383	1,756,580	14,729
486	89,188	128
1,966	1,966	—
3,069	7,171	865
(613)	(65,555)	(23)
—	15	150
—	(15,411)	—
(91)	(108)	2,557
—	253,453	—
—	11,375	—
10	45,886	199
4,827	327,980	3,876
7,210	2,084,560	18,605
11,518	21,251	1,151
6,988	115,252	10,614
(1,059)	(531,735)	(5,819)
24,657	1,689,328	24,551
167,823	1,476,621	212,621
$ 192,480	$ 3,165,949	$ 237,172

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2015

(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	$ 1,617,969	$ 4,178	$ 1,852,799	$ 29,442
Receipts from federal agencies	5,897	—	—	—
Receipts from other funds	—	—	—	—
Payments to suppliers	—	(1,784)	(67,538)	(7,475)
Payments to employees	—	(5,868)	(18,934)	(1,406)
Payments for prizes, benefits, and claims	(354,400)	—	(1,216,421)	—
Payments to other funds	—	—	—	—
Other receipts	46,123	—	24	—
Other payments	(94)	(114)	—	(3,411)
Net cash flows provided (used) by operating activities	1,315,495	(3,588)	549,930	17,150
Cash Provided From (Used For) Noncapital Financing Activities				
Grant receipts	3,225	85,609	—	—
Grants, aid, and subsidies	—	(15,411)	—	—
Advances from federal unemployment account	191,724	—	—	—
Payments to federal unemployment account	(919,257)	—	—	—
Interest expense and issuance cost	(40,614)	—	—	—
Advances from other funds	—	—	—	792
Transfers from other funds	—	14,584	—	—
Transfers to other funds	(1,808)	(1,441)	(521,651)	—
Gifts	—	—	—	—
Insurance recoveries	—	—	—	15
Total cash provided from (used for) noncapital financing activities	(766,730)	83,341	(521,651)	807
Cash Provided From (Used For) Capital and Related Financing Activities				
Acquisition and construction of capital assets	—	(99)	(1,090)	(48,280)
Proceeds from the sale of capital assets	—	—	4	—
Transfers from other funds	—	—	—	93,680
Capital grants	—	—	—	9,882
Capital contributions	—	—	—	—
Principal paid on capital debt	—	—	—	(19,720)
Interest paid on capital debt	—	—	—	(69,847)
Federal subsidy for interest on debt	—	—	—	11,375
Insurance recoveries	—	—	—	—
Total cash provided from (used for) capital and related financing activities	—	(99)	(1,086)	(22,910)
Cash Provided From (Used For) Investment Activities				
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	—	6,722,057
Purchase of non-State Treasurer investments	—	—	—	(6,715,965)
Purchase into State Treasurer investment pool	—	(195,728)	—	—
Loan issuances	—	(174,546)	—	—
Loan repayments — interest	—	19,416	—	—
Loan repayments — principal	—	73,628	—	—
Investment earnings	3,063	(2,649)	655	3,435
Total cash provided from (used for) investment activities	3,063	(279,879)	655	9,527
Net increase (decrease) in cash and cash equivalents	551,828	(200,225)	27,848	4,574
Cash and cash equivalents at July 1, as restated	57,274	421,594	21,157	3,510
Cash and cash equivalents at June 30	$ 609,102	$ 221,369	$ 49,005	$ 8,084

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

Exhibit B-5

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 140,125	$ 3,644,513	$ 35,445
—	5,897	—
—	—	279,124
(32,617)	(109,414)	(146,613)
(70,338)	(96,546)	(122,495)
(12,079)	(1,582,900)	(443)
—	—	(20,586)
806	46,953	531
(14,535)	(18,154)	(145)
11,362	1,890,349	24,818
486	89,320	128
—	(15,411)	—
—	191,724	—
—	(919,257)	—
—	(40,614)	—
—	792	—
6,988	21,572	10,614
(1,059)	(525,959)	(5,819)
1,963	1,963	—
—	15	—
8,378	(1,195,855)	4,923
(1,364)	(50,833)	(28,197)
28	32	3,297
—	93,680	—
—	9,882	—
56	56	—
(1,774)	(21,494)	(158)
(613)	(70,460)	(23)
—	11,375	—
—	—	150
(3,667)	(27,762)	(24,931)
8,772	6,730,829	—
(9,709)	(6,725,674)	—
(5,000)	(200,728)	—
—	(174,546)	—
—	19,416	—
—	73,628	—
587	5,091	160
(5,350)	(271,984)	160
10,723	394,748	4,970
79,545	583,080	87,456
$ 90,268	$ 977,828	$ 92,426

Continued

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2015

(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)	$ 1,213,795	$ 16,466	$ 527,034	$ (3,098)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation	—	31	568	16,130
Pension expense	—	142	606	32
Interest earnings on loans classified as investing activity	—	(19,777)	—	—
Nonoperating miscellaneous income (expense)	46,029	—	2	—
(Increases) decreases in assets and deferred outflows:				
Receivables	73,362	—	13,413	(1,213)
Due from other funds	(5,062)	—	(68)	(55)
Due from component units	—	—	—	—
Inventories	—	—	—	(829)
Prepaid items	—	—	655	386
Notes receivable	—	—	—	—
Deferred outflows for pensions	—	(399)	(1,284)	(86)
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities	(9,743)	(131)	8,506	4,800
Due to other funds	(473)	(4)	—	561
Due to fiduciary funds	—	—	—	49
Compensated absences	—	84	498	(1)
Unearned revenue	(2,413)	—	—	—
Deposits payable	—	—	—	474
Total cash provided from (used for) operations	$ 1,315,495	$ (3,588)	$ 549,930	$ 17,150
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	—	—	—	9,787
Gain on extinguishment of debt	253,453	—	—	—
Assets acquired through the assumption of a liability	—	—	3,536	—
Change in fair value of investments	(21)	304	(262)	2,482
Increase in receivables related to nonoperating income	—	—	—	—
Change in securities lending collateral	2,497	(17,250)	2,018	(26,613)

Exhibit B-5

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 2,383	$ 1,756,580	$ 14,729
4,418	21,147	19,532
1,796	2,576	1,259
—	(19,777)	—
12	46,043	208
(1,165)	84,397	(3,506)
—	(5,185)	2,740
—	—	185
(59)	(888)	89
74	1,115	(4,527)
4	4	—
(2,520)	(4,289)	(3,709)
5,119	8,551	(2,367)
49	133	(259)
—	49	—
289	870	464
954	(1,459)	(20)
8	482	—
$ 11,362	$ 1,890,349	$ 24,818
$ 4,110	$ 4,110	$ 1,998
11,308	11,308	1,151
—	9,787	—
—	253,453	—
—	3,536	—
(1,734)	769	(1,306)
1	1	—
(3,726)	(43,074)	(2,245)

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2015 *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)	$ 385,631	$ 8,847	$ 122,997	$ 4,499,631
Investments (Note 3):				
U.S. government and agency securities	—	—	311	—
Corporate bonds	—	—	—	1,692
Certificates of deposit	—	—	44,489	525
Collective investment funds	228,407	—	—	—
State Treasurer investment pool	90,415,679	1,108,148	6,978	44,197
Unallocated insurance contracts	762,219	—	—	—
Synthetic guaranteed investment contracts	1,308,771	—	—	—
Non-State Treasurer pooled investments	6,686,136	—	—	—
Securities lending collateral (Note 3)	4,132,190	51,103	1,197	270,698
Receivables:				
Taxes receivable	—	—	—	158,800
Accounts receivable	30,792	—	—	5,654
Interest receivable	311	1,385	3	25
Contributions receivable	149,579	—	—	—
Due from other funds (Note 10)	59,550	—	—	49,930
Due from component units	18,836	—	—	—
Notes receivable	304,288	—	—	—
Sureties	—	—	871,045	98,625
Total Assets	104,482,389	1,169,483	1,047,020	5,129,777
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	1,582	—	—	5
Intergovernmental payable	—	—	—	760,997
Benefits payable	4,253	—	—	—
Obligations under securities lending	4,132,189	51,103	1,197	270,698
Deposits payable	—	—	—	1,854
Funds held for others	6,976	—	—	4,096,223
Total Liabilities	4,145,000	51,103	1,197	5,129,777
Net Position				
Restricted for:				
Pension benefits	97,294,737	—	—	—
Postemployment benefits	1,479,481	—	—	—
Other employee benefits	1,563,171	—	—	—
Pool participants	—	880,844	—	—
Individuals, organizations, and other governments	—	237,536	1,045,823	—
Total Net Position	$ 100,337,389	$ 1,118,380	$ 1,045,823	$ —

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, 2015 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
Additions			
Contributions:			
Employer	$ 2,806,048	$ —	$ —
Members	1,593,946	—	—
Trustee deposits	—	—	111,284
Other contributions	43,737	—	—
Total contributions	4,443,731	—	111,284
Investment income:			
Investment earnings	3,122,237	26,405	1,852
Less investment expenses	(552,960)	(1,246)	(3)
Net investment income	2,569,277	25,159	1,849
Pool share transactions:			
Reinvestment of dividends	—	24,987	—
Net share purchases/(redemptions)	—	46,764	—
Net pool share transactions	—	71,751	—
Other additions:			
Fees, licenses, and fines	3,218	—	—
Interest earnings on loans	12,308	—	—
Miscellaneous	2,441	—	—
Total other additions	17,967	—	—
Total additions	7,030,975	96,910	113,133
Deductions			
Claims and benefits	5,859,467	—	—
Medical insurance premiums	835,925	—	—
Refund of contributions	164,834	—	—
Distributions paid and payable	—	24,987	—
Payments in accordance with trust arrangements	—	—	105,645
Administrative expenses	20,509	—	—
Other deductions	14,651	—	—
Total deductions	6,895,386	24,987	105,645
Change in net position	135,589	71,923	7,488
Net position — July 1	100,201,800	1,046,457	1,038,335
Net position — June 30	$ 100,337,389	$ 1,118,380	$ 1,045,823

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

NOTES TO THE FINANCIAL STATEMENTS

INDEX

DETAIL NOTES ON ALL FUNDS AND ACTIVITIES

NOTES TO THE FINANCIAL STATEMENTS

Page

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

Discretely Presented Component Units - Major

University of North Carolina System

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

Also included in the System are the financial data of the universities’ significant fund-raising foundations (and 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.

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

UNC General Administration
Appalachian State University
East Carolina University
Elizabeth City State University
Fayetteville State University
North Carolina Agricultural and Technical State University
North Carolina Central University
North Carolina State University
University of North Carolina at Asheville
University of North Carolina at Chapel Hill
University of North Carolina at Charlotte
University of North Carolina at Greensboro
University of North Carolina at Pembroke
University of North Carolina at Wilmington
University of North Carolina School of the Arts
Western Carolina University
Winston-Salem State University
Gateway University Research Park, Inc.
North Carolina School of Science and Mathematics
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 fund-raising foundations. Although the community colleges do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective community colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific community colleges, the foundations are considered component units of the community colleges and are included in the community colleges' financial statements. Certain foundations are private not-for-profits that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The financial statement formats of the private foundations were modified to make them compatible with the community colleges' financial statement formats.

The following are the State's 58 community colleges:

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

State Health Plan

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

NOTES TO THE FINANCIAL STATEMENTS

Discretely Presented Component Units - Other

The Golden LEAF (Long-term Economic Advancement Foundation), Inc.
The Golden LEAF, Inc. (Foundation) is a legally separate not-for-profit corporation ordered to be created by the Consent Decree and Final Judgment in the State of North Carolina vs. Philip Morris, et al. The Foundation was established to receive and distribute 50% of the tobacco settlement funds allocated to North Carolina, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. In July 2013, the North Carolina General Assembly enacted Session Law 2013-360, which repealed section 6(1) of Session Law 1999-2 requiring 50% of tobacco settlement funds to be allocated to the Foundation. Beginning 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.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Availability of Financial Statements

Unless otherwise noted, complete financial statements for the following component units can be obtained from the Office of the State Auditor, 2 South Salisbury Street, 20601 Mail Service Center, Raleigh, N.C. 27699-0601 or can be accessed from the Office of the State Auditor internet home page at www.ncauditor.net.

Constituent institutions in the UNC System
North Carolina Global TransPark Authority
North Carolina State Ports Authority
The North Carolina Partnership for Children, Inc.

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

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

North Carolina Railroad Company
2809 Highwoods Boulevard, 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

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

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

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

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

B. Basis of Presentation

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

The financial statements are presented as of and for the fiscal year ended June 30, 2015, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2014, 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, 2014. Occupational licensing boards have financial statements with various fiscal year ending dates.

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The State reports the following major governmental funds:

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

Highway Fund
This fund accounts for most of the activities of the Department of Transportation, including the maintenance and some construction of the State’s primary and secondary road systems. In addition, it supports areas such as the N.C. Ferry System, the Division of Motor Vehicles, public transportation, and railroad operations. The fund 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.

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

The State reports the following major enterprise funds:

Unemployment Compensation Fund
This fund accounts for the State's unemployment insurance program, which is part of a national system established to provide temporary benefit payments to eligible unemployed workers. The administrative costs of this program are reported in the General Fund and financed through the distribution of employer paid federal unemployment insurance taxes. The state unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund. The unemployment benefits are financed by these employer paid taxes, distributions of federal unemployment insurance taxes for emergency related benefits, and federal funding for the unemployment benefits of civilian and military employees. From February 2009 through April 2015, unemployment benefits were also financed by repayable advances from the Federal Unemployment Account. The State paid off this debt on April 30, 2015.

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 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.

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

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

Lottery games are sold to the public by contracted retailers. For the N.C. Education Lottery Commission's draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, All or Nothing, 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 All or Nothing, prize expense is recorded at fifty-two 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.

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 and money market mutual funds, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement. Certain component units of the State deposit funds with the 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.

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:

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

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

L. Tax Refund Liabilities

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

M. Compensated Absences

Employees of the State and component units are permitted to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Also, when determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The State's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar year end is converted to sick leave.

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

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

N. Long-Term Liabilities

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

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

O. Deferred Outflows/Inflows of Resources

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

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

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

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, 2015, the balance of the Savings Reserve Account was $851.6 million, which represents 4.13% of the prior year's General Fund appropriation budget.

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.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Equity Deficit

Primary Government

At June 30, 2015, the following enterprise funds reported a net position deficit: Workers' Compensation, $1.018 million and State Banking Commision, $724 thousand.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

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

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, Local Government Other Post-Employment Benefits (OPEB) Trust, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

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, Highway Fund, and Highway Trust Fund. Other participants include universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer as well as the remaining portfolios listed below.

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

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

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

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

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

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

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

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, 2015, 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, 2015

Assets	
Cash and cash equivalents	$ 206,411
Other assets	244,560
Investments	108,714,418
Total assets	109,165,389
Liabilities	
Other payables	7,887
Obligations under securities lending	5,048,143
Total liabilities	5,056,030
Net Position	
Internal:	
Primary government	99,392,488
Component units	3,836,027
External	880,844
Total net position	$ 104,109,359

Statement of Operations and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Revenues	
Investment income	$ 2,712,679
Expenses	
Securities lending	6,360
Investment management	581,266
Total expenses	587,626
Net increase in net position resulting from operations	2,125,053
Distributions to participants	
Distributions paid and payable	(2,125,053)
Share transactions	
Reinvestment of distributions	2,124,772
Net share redemptions	(1,779,512)
Total increase in net position	345,260
Net position	
Beginning of year	103,764,099
End of year	$ 104,109,359

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, Equity Investment, and OPEB Equity Investment portfolios and quarterly for the Real Estate Investment portfolio. The Alternative Investment and Credit Investment portfolios are valued quarterly except hedge fund investments, which are valued monthly. The Inflation Protection Investment portfolio consists of limited partnerships that are valued quarterly and futures that may be valued daily or monthly. In the Long-term Investment portfolio, the fair value of fixed income securities is 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, 2015, $3.78 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 by the Federal Deposit Insurance Corporation (FDIC). 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).

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	$ 14,201,782	$ 8,484,517	$ 509,654	$ 2,624,394	$ 2,583,217
U.S. agencies	8,824,189	881,455	7,013,935	152,325	776,474
Mortgage pass-throughs	8,681,196	—	293	17,686	8,663,217
Repurchase agreements	2,188,000	2,188,000	—	—	—
Collective investment funds	203,726	203,726	—	—	—
Domestic corporate bonds	8,602,336	4,975	672,042	4,297,749	3,627,570
Foreign government bonds	25,021	—	—	25,021	—
Securities purchased with cash collateral under fixed income securities lending program:					
Asset-backed securities	184,867	184,867	—	—	—
Negotiable certificates of deposit	328,596	328,596	—	—	—
Repurchase agreements	631,464	631,464	—	—	—
Money market mutual funds	132,785	132,785	—	—	—
Commercial paper	67,502	67,502	—	—	—
Domestic corporate bonds	1,942,612	1,942,612	—	—	—
Securities purchased with cash collateral under equity securities lending program:					
U.S. Treasuries	14,800	14,800	—	—	—
U.S. agencies	22,000	22,000	—	—	—
Asset-backed securities	269,232	269,232	—	—	—
Negotiable certificates of deposit	65,998	65,998	—	—	—
Euro certificates of deposit	65,000	65,000	—	—	—
Yankee certificates of deposit	782,055	782,055	—	—	—
Repurchase agreements	256,628	256,628	—	—	—
Bank notes	39,997	39,997	—	—	—
Commercial paper	54,972	54,972	—	—	—
	47,584,758	$ 16,621,181	$ 8,195,924	$ 7,117,175	$ 15,650,478
Other investments:					
Equity based trust - domestic	25,081,834				
Equity based trust - international	14,188,493				
OPEB equity based trust- domestic	90,197				
OPEB equity based trust- international	28,758				
Alternative investments:					
Hedge funds	277,024				
Private equity investment partnerships	4,726,969				
Stock distributions	20,074				
Real estate trust funds	7,246,950				
Credit investments	5,438,220				
Inflation protection investments	4,017,541				
Total investments	$ 108,700,818				

In addition to the total investments above, nonnegotiable certificates of deposit ($13.6 million) are reported as investments in the Condensed Statement of Net Position presented previously.

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	$ 13,127,829	0.00%-8.75%
U.S. agencies	8,621,956	0.00%-7.125%
Mortgage pass-throughs	8,148,736	3.00%-9.00%
Domestic corporate bonds	7,944,364	0.625%-10.50%
Foreign government bonds	25,000	2.45%
Repurchase agreements	2,188,000	0.20%-0.25%
Collective investment funds	203,726	0.186%
Securities purchased with cash collateral under fixed income securities lending program:		
Asset-backed securities	305,604	0.237%-0.277%
Negotiable certificates of deposit	328,585	0.17%-0.26%
Repurchase agreements	631,464	0.07%-0.14%
Money market mutual funds	132,785	0.163%
Commercial paper	67,513	0.18%-0.317%
Domestic corporate bonds	1,942,832	0.226%-0.464%
Securities purchased with cash collateral under equity securities lending program:		
U.S Treasuries	14,800	0.00%
U.S. agencies	22,000	0.00%
Asset-backed securities	271,828	0.00%-1.027%
Negotiable certificates of deposit	66,000	0.287%-0.297%
Euro certificates of deposit	65,000	0.30%
Yankee certificates of deposit	779,500	0.09%-0.585%
Repurchase agreements	256,628	0.02%-0.16%
Bank notes	40,000	0.361%-0.372%
Commercial paper	55,000	0.00%-0.367%
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 and foreign 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 1.5 years as of June 30, 2015. 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 93.9% 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.

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.

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):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ —	$ 8,824,189	$ —	$ —	$ —	$ —
Repurchase agreements	—	2,188,000	—	—	—	—
Collective investment funds	—	—	—	—	—	203,726
Domestic corporate bonds	125,343	598,769	4,145,716	3,428,539	303,969	—
Foreign government bonds	—	—	25,021	—	—	—
Securities purchased with cash collateral under fixed income securities lending program:						
Asset-backed securities	—	—	—	—	184,867	—
Negotiable certificates of deposit	—	—	328,596	—	—	—
Repurchase agreements	—	631,464	—	—	—	—
Money market mutual funds	132,785	—	—	—	—	—
Commercial paper	—	—	67,502	—	—	—
Domestic corporate bonds	—	538,126	1,404,486	—	—	—
Securities purchased with cash collateral under equity securities lending program:						
U.S. agencies	—	22,000	—	—	—	—
Asset-backed securities	7,691	25,620	230,983	641	4,297	—
Negotiable certificates of deposit	—	65,998	—	—	—	—
Euro certificates of deposit	—	—	65,000	—	—	—
Yankee certificates of deposit	—	26,495	755,560	—	—	—
Repurchase agreements	—	256,628	—	—	—	—
Bank notes	—	39,997	—	—	—	—
Commercial paper	—	—	54,972	—	—	—
Total	$ 265,819	$ 13,217,286	$ 7,077,836	$ 3,429,180	$ 493,133	$ 203,726

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. The 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.

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):

	Carrying Value by Investment Type					
Currency	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Funds	OPEB Equity Based Trust- International	Credit Investment Partnerships	Total
Euro	$ 3,984,700	$ 605,035	$ 179,696	$ 6,055	$ 7,376	$ 4,782,862
British Pound Sterling ...	2,742,448	58,866	310,551	3,000	—	3,114,865
Japanese Yen	2,419,981	143,335	49,182	4,913	—	2,617,411
Hong Kong Dollar	1,050,978	—	40,542	2,362	—	1,093,882
Swiss Franc	1,002,047	58,800	3,674	1,683	—	1,066,204
Australian Dollar	561,716	6,704	23,590	1,277	—	593,287
Swedish Krona	381,002	—	3,710	341	—	385,053
South Korean Won	376,404	—	—	147	—	376,551
Canadian Dollar	261,090	—	9,189	1,535	—	271,814
New Taiwan Dollar	268,769	—	—	1,449	—	270,218
Danish Krone	219,981	—	—	610	—	220,591
Singapore Dollar	207,621	—	8,652	652	—	216,925
Indian Rupee	175,186	—	—	—	—	175,186
Other Currencies	536,570	—	3,484	4,204	—	544,258
Total	$ 14,188,493	$ 872,740	$ 632,270	$ 28,228	$ 7,376	$ 15,729,107

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 $834 million for the fiscal year ended June 30, 2015. 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 and a third party lending agent (both are "lending providers") manages the securities lending program for the equity-based trust. During the year, the lending providers lent U.S. government and agency securities, corporate bonds, notes, and equity securities for collateral. The lending programs are permitted to receive cash and U.S. government and agency securities as collateral for the securities lent. In addition, the securities lending program in the internally managed fixed income portfolios may receive irrevocable letters of credit.

The collateral is initially pledged at 102% of the market value of the domestic securities lent in both the fixed income portfolios and the equity-based trust and 105% of the market value of foreign securities lent in the equity-based trust program. 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 lending providers and held in separate accounts 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 contracts with the lending providers. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities loans.

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 lending providers are contractually obligated to indemnify the Treasurer for certain conditions, the most important is default on the part of the borrowers.

Internally Managed Fixed Income Portfolios

Interest Rate Risk and Credit Risk. Under the prior securities lending guidelines for the internally managed fixed income portfolios, 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 in the internally managed fixed income portfolios will not have a final maturity greater than 397 days. The custodian is not permitted to make investments where the weighted average maturity of all investments exceeds 60 days. As of June 30, 2015, the weighted average maturity of investments was approximately 25 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. As of June 30, 2015, the fair value of loaned securities in the internally managed fixed income program was $6.5 billion; the fair value of the associated collateral was $6.5 billion of which $3.3 billion was cash.

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 in the Investment Pool's Condensed 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 $189.2 million, and had accrued $187.4 million in the separate account.

Equity-Based Trust

Interest Rate Risk and Credit Risk. Under the prior securities lending guidelines, cash collateral was invested by the lending provider in a variety of permitted investments including asset-backed securities, U.S. Treasuries and commingled or mutual funds. These investments had certain credit and concentration restrictions and were managed to ensure that the average effective duration of the fund would not exceed 120 days. In 2010, when the current guidelines were adopted, the remaining balance of these assets was transferred in-kind to a separate account in the name of the State Treasurer with the remainder in a legacy portfolio. As of June 30, 2015, the average duration of these investments was approximately 43 days with an average weighted final maturity of 2,126 days.

Under the current securities lending guidelines for the equity-based trust adopted in 2010, all eligible investments must be rated at least A1, P1 or F1 by at least two nationally recognized rating organizations, except for repurchase agreements, which require the counterparty to have a short-term rating of at least A2, P2 or F2 by at least one of the nationally recognized rating agencies. All eligible securities must be acquired with no more than 13 months remaining to legal final maturity. The dollar-weighted average maturity of the cash collateral account should not exceed 60 days and should not have a dollar-weighted average final maturity in excess of 120 days. The average weighted duration of the investments was approximately 23 days with an average weighted final maturity of approximately 89 days. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. No more than five percent of the cash collateral may be invested in a single issue. As of June 30, 2015, the fair value of loaned securities in the equity-based trust program was $1.7 billion; the fair value of the associated collateral was $1.8 billion of which $1.6 billion was cash.

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):

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Debt investments:		
Repurchase agreements	$ 265,543	2
Asset-backed securities	15,884	877
Total investments	$ 281,427	

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

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

Public Hospitals Investment Account

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

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

Investment Type	Carrying Amount
Other investments:	
Equity based trust - domestic	$ 174,125
Equity based trust - international	55,424
External investment pool - long-term	7,987
Total investments	$ 237,536

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

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 11,669
Japanese Yen	9,469
British Pound Sterling	5,782
Hong Kong Dollar	4,552
Swiss Franc	3,244
Canadian Dollar	2,959
Taiwan Dollar	2,792
Australian Dollar	2,462
Brazilian Real	2,053
South African Rand	1,327
Singapore Dollar	1,257
Thai Baht	1,208
Danish Krone	1,176
Turkish Lira	728
Poland Zloty	710
Swedish Krona	657
Norwegian Krone	555
Other Currencies	1,805
Total	$ 54,405

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):

Investment Type	Carrying Amount
Other investments:	
Private equity investment partnerships	$ 35,505

B. Deposits Outside the State Treasurer

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

Primary Government

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

Uninsured and uncollateralized..	$ 3,473

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...	$ 205,116
Uninsured and collateral held by pledging bank's trust department or agent but not in the entity's name...	4,715
Total..	$ 209,831

C. Investments Outside the State Treasurer

Primary Government

At year-end, 87% 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, 2014, 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 $6.69 billion. The remainder of the investments is the Stable Value Fund, which consists of four synthetic guaranteed investment contracts, two guaranteed investment contracts, five wrap contracts, a stable return fund, and a government money market fund.

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries	$ 304,534	$ 7,957	$ 125,469	$ 131,074	$ 40,034
U.S. Treasury STRIPS	48,924	—	11,399	25,928	11,597
U.S. agencies	20,817	—	11,377	3,263	6,177
Mortgage pass-throughs	66,518	4,176	11,651	14,683	36,008
Collateralized mortgage obligations	91,891	7,072	3,476	20,738	60,605
State and local government	6,428	827	4,098	—	1,503
Asset-backed securities	48,283	1,826	33,421	7,495	5,541
Collective investment funds	1,576,767	78,288	826,243	672,236	—
Money market mutual funds	76,511	76,511	—	—	—
Pooled debt funds	287,086	—	—	287,086	—
Domestic corporate bonds	162,686	32,240	101,335	19,429	9,682
Foreign corporate bonds	87,812	22,388	58,764	4,330	2,330
Foreign government bonds	83,299	6,868	37,212	25,873	13,346
	2,861,556	$ 238,153	$ 1,224,445	$1,212,135	$ 186,823
Other investments:					
Equity mutual funds	1,561,518				
Unallocated insurance contracts	762,219				
Domestic stocks	3,052,626				
Foreign stocks	779,331				
Other	663				
Total investments	$ 9,017,913				

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 $30.3 million. The Plans' investment in the Pooled Separate Account SA-NC is stated at fair value. Units of the Pooled Separate Account SA-NC are reported at fair value, based on the net asset value of the units held by the Plan. Units of common/commingled funds are valued at the net asset value of shares held by the Plan. Investments in fixed income securities (U.S. Treasuries and agency securities, asset-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, domestic corporate bonds, foreign government bonds, foreign corporate bonds, state and local government bonds, and mortgage pass-throughs) are valued on the basis of valuations furnished by independent pricing services. These services determine valuations for normal institutional-size trading units of such securities using models or matrix pricing, which incorporates yield and/or price with respect to bonds that are considered comparable in characteristics such as rating, interest rate, maturity date and quotations from bond dealers to determine current value. If these valuations are deemed to be either not reliable or not readily available, the fair value will be determined in good faith by the custodian. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Contributions to the collective trust and Pooled Separate Account are credited to participant accounts as units. The value of a unit changes each day based on the current fair value of the investment portfolio. Earnings of the Pooled Separate Account, as well as market fluctuations, are reflected in unit values. Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Interest Rate Risk. The 401(k) and 457 Plans have a formal investment policy that limits duration as a means of managing their exposure to fair value losses arising from increasing interest rates. The overall duration of the underlying securities in the Stable Value Fund will be between 2 and 3.5 years. The average duration of the Pooled Separate Account's fixed income fund is targeted to be within plus or minus 25% of the Barclay's Capital Aggregate Bond Index. The average duration of the Pooled Separate Account's inflation responsive fund is not limited by the plans' investment policy. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investments funds are sensitive to changes in interest rates. Collateralized mortgage obligations generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value sensitive to changes in interest rates. Investments consist of units in various 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's fixed income fund requires that debt securities are intended to have an average quality rating of A- or better. The Plans' investment policy for the Pooled Separate Account's fixed income fund permits investments in issues rated below investment grade, but those securities should not exceed 20% of the fixed income assets. At December 31, 2014, 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):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ —	$ 18,955	$ —	$ —	$ —	$ —
Mortgage pass-throughs	—	63,872	—	—	—	—
Collateralized mortgage obligations	7,095	66,415	2,130	4,860	5,192	3,485
State and local government	—	3,387	3,041	—	—	—
Asset-backed securities	36,789	2,199	5,353	1,496	47	2,399
Collective investment funds	—	—	—	—	—	1,576,767
Money market mutual funds	—	—	—	—	—	76,511
Pooled debt funds	—	—	—	—	—	287,086
Domestic corporate bonds	295	5,085	55,236	99,385	2,685	—
Foreign corporate bonds	3,281	8,862	42,025	25,846	254	7,544
Foreign government bonds	20,382	10,103	10,438	19,857	18,429	4,090
	$ 67,842	$ 178,878	$ 118,223	$ 151,444	$ 26,607	$ 1,957,882

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk. At December 31, 2014, 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	$ 304,534
U.S. Treasury STRIPS	48,924
U.S. agencies	20,817
Mortgage pass-throughs	66,518
Collateralized mortgage obligations	91,891
State and local government	6,428
Asset-backed securities	48,283
Domestic corporate bonds	162,686
Foreign corporate bonds	87,812
Foreign government bonds	83,299
Domestic stocks	3,052,626
Foreign stocks	779,331
Total	$ 4,753,149

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, 2014, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Amount Foreign stocks
Euro................................	$ 221,872
Japanese Yen................	149,860
British Pound Sterling......	117,497
Swiss Franc....................	48,666
Canadian Dollar...............	35,340
Hong Kong Dollar............	34,901
Swedish Krona..............	29,784
New Taiwan Dollar..........	21,421
South Korean Won..........	19,866
Danish Krone..................	15,831
Singapore Dollar.............	15,591
South African Rand.........	13,958
Indian Rupee...................	13,817
Australian Dollar.............	12,128
Turkish Lira......................	9,956
Other Currencies............	18,843
Total..............................	$ 779,331

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......................................	$ 27,856	$ 2,529	$ 24,971	$ 332	$ 24
U.S. Treasury STRIPS............................	75	75	—	—	—
U.S. agencies..	68,591	12,449	54,113	2,029	—
Asset-backed securities.......................	3,097	3,097	—	—	—
Repurchase agreements.......................	406,333	406,333	—	—	—
Annuity contracts..................................	61,854	5,136	20,544	25,680	10,494
Debt mutual funds..................................	457	—	—	457	—
Money market mutual funds...................	142,955	142,955	—	—	—
Pooled debt funds..................................	456,470	456,470	—	—	—
	1,167,688	$ 1,029,044	$ 99,628	$ 28,498	$ 10,518
Other investments:					
International mutual funds......................	500				
Equity mutual funds...............................	550				
Real estate investment trust..................	38				
Domestic stocks....................................	138,132				
Total investment securities....................	$ 1,306,908				

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

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

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ 68,546	$ —	$ —	$ —	$ —	$ 45
Asset-backed securities	3,097	—	—	—	—	—
Annuity contracts	—	61,854	—	—	—	—
Debt mutual funds	231	27	51	52	89	7
Money market mutual funds	142,940	—	—	—	—	15
Pooled debt funds	—	—	—	—	—	456,470
Total	$ 214,814	$ 61,881	$ 51	$ 52	$ 89	$ 456,537

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.

<u>Component Units</u>

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 $1.61 billion.

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	$ 231,311	$ 3,770	$ 203,457	$ 21,954	$ 2,130
U.S. agencies	155,514	11,881	21,841	5,880	115,912
Mortgage pass-throughs	19,799	9,555	1,787	3,155	5,302
Collateralized mortgage obligations	103,586	53,000	573	313	49,700
State and local government	217	32	77	59	49
Asset-backed securities	60,350	27,788	2,683	9,076	20,803
Collective investment funds	41,691	41,691	—	—	—
Commercial paper	860	860	—	—	—
Annuity contracts	155	70	35	27	23
Debt mutual funds	408,976	25,685	246,597	124,966	11,728
Money market mutual funds	473,777	464,712	3,439	2,872	2,754
Pooled debt funds	1,983	291	702	540	450
Domestic corporate bonds	75,229	18,410	40,184	8,899	7,736
Foreign corporate bonds	24,393	3,957	12,012	5,318	3,106
Foreign government bonds	1,670	—	1,427	243	—
Other	260	260	—	—	—
	1,599,771	$ 661,962	$ 534,814	$ 183,302	$ 219,693
Other investments:					
Balanced mutual funds	4,602				
International mutual funds	107,409				
Equity mutual funds	143,583				
Investments in real estate	34,813				
Real estate investment trust	64,359				
Hedge funds	2,537,735				
Private equity limited partnerships	1,208,823				
Real assets limited partnerships	523,045				
Other limited partnerships	248,591				
Pooled investments	32				
Unallocated insurance contracts	627				
Domestic stocks	269,556				
Foreign stocks	18,185				
Other	16,051				
Total investments	$ 6,777,182				

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):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ 67	$ 153,445	$ —	$ —	$ —	$ —
Mortgage pass-throughs	448	99	420	1,893	8,657	8,282
Collateralized mortgage obligations	876	552	—	53	90,882	11,223
State and local government	93	8	63	53	—	—
Asset-backed securities	14,010	1,210	6,298	7,302	29,022	2,508
Collective investment funds	7,688	263	477	542	632	1,209
Commercial paper	—	—	—	—	—	860
Annuity contracts	43	4	29	25	—	—
Debt mutual funds	2,645	9,240	186,230	45,281	86,853	43,397
Money market mutual funds	444,342	4,390	3,097	2,194	—	17,660
Pooled debt funds	847	72	575	489	—	—
Domestic corporate bonds	9,395	16,719	28,976	8,405	9,905	98
Foreign corporate bonds	—	1,068	2,270	6,436	14,210	—
Foreign government bonds	—	—	33	1,020	617	—
Total	$ 480,454	$ 187,070	$ 228,468	$ 73,693	$ 240,778	$ 85,237

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):

	Carrying Amount	
Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in the entity's name
U.S. Treasuries	$ 24,557	$ 5,485
U.S. agencies	2,069	—
Mortgage pass-throughs	8,040	—
State and local government	—	217
Asset-backed securities	—	3,394
Domestic corporate bonds	18,326	7,203
Foreign corporate bonds	410	—
Domestic stocks	28,043	72
Foreign stocks	744	13
Other	260	—
Total	$ 82,449	$ 16,384

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):

	Carrying Amount			
Currency	Hedge funds	Private equity limited partnerships	Real assets limited partnerships	Foreign stocks
Euro	$ 29,242	$ 82,225	$ 14,981	$ —
Canadian Dollar	—	—	8,240	6,140
British Pound Sterling	—	22,013	10,783	—
Australian Dollar	—	2,832	—	—
Total	$ 29,242	$ 107,070	$ 34,004	$ 6,140

The UNC System recognized an aggregate foreign currency transaction loss of $15.33 million for the fiscal year ended June 30, 2015. 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 4: RECEIVABLES

Receivables at June 30, 2015, 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)..	$ 3,826,773	$ 272,805	$ 52,112	$ 25,946	$ 19,996	$ 4,197,632
Allowance for doubtful accounts.........	(845,382)	(62,970)	—	(13)	—	(908,365)
Receivables, net..............................	$ 2,981,391	$ 209,835	$ 52,112	$ 25,933	$ 19,996	$ 3,289,267

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are $22.11 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)..	$ 650,037	$ 3,838	$ 8,696	$ 13,607	$ 5,692	$ 681,870
Allowance for doubtful accounts.........	(71,410)	—	—	—	(17)	(71,427)
Receivables, net..............................	$ 578,627	$ 3,838	$ 8,696	$ 13,607	$ 5,675	$ 610,443

NOTE 5: CAPITAL ASSETS

Primary Government A summary of changes in capital assets for the year ended June 30, 2015 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, nondepreciable				
Land and permanent easements	$ 16,221,268	$ 416,620	$ (3,419)	$ 16,634,469
Art, literature, and other artifacts	104,296	15,685	(3,758)	116,223
Construction in progress	2,040,771	1,646,362	(1,637,822)	2,049,311
Computer software in development	290,801	61,127	(27,538)	324,390
Total Capital Assets-nondepreciable	18,657,136	2,139,794	(1,672,537)	19,124,393
Capital Assets, depreciable				
Buildings	3,869,775	66,138	(32,390)	3,903,523
Machinery and equipment	1,677,153	127,721	(107,855)	1,697,019
General infrastructure	251,556	3,395	(807)	254,144
State highway system	31,189,987	1,608,178	(77,893)	32,720,272
Computer software	303,467	31,326	(86)	334,707
Total Capital Assets-depreciable	37,291,938	1,836,758	(219,031)	38,909,665
Less accumulated depreciation for				
Buildings	(1,077,150)	(71,145)	2,363	(1,145,932)
Machinery and equipment	(1,087,830)	(94,939)	90,639	(1,092,130)
General infrastructure	(88,494)	(5,787)	230	(94,051)
State highway system	(9,292,201)	(654,405)	76,335	(9,870,271)
Computer software	(15,358)	(11,949)	—	(27,307)
Total accumulated depreciation	(11,561,033)	(838,225)	169,567	(12,229,691)
Total Capital Assets-depreciable, net	25,730,905	998,533	(49,464)	26,679,974
Governmental activities Capital Assets, net	$ 44,388,041	$ 3,138,327	$ (1,722,001)	$ 45,804,367

Business-type Activities

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, nondepreciable				
Land and permanent easements	$ 160,571	$ 25,323	$ —	$ 185,894
Art, literature, and other artifacts	209	181	—	390
Construction in progress	206,910	56,371	—	263,281
Total Capital Assets-nondepreciable	367,690	81,875	—	449,565
Capital Assets, depreciable				
Buildings	80,257	11,497	(87)	91,667
Machinery and equipment	21,804	1,215	(1,642)	21,377
General infrastructure	16,035	—	—	16,035
NC toll road system	806,486	—	—	806,486
Computer software	180	984	—	1,164
Total Capital Assets-depreciable	924,762	13,696	(1,729)	936,729
Less accumulated depreciation for				
Buildings	(26,025)	(2,355)	1	(28,379)
Machinery and equipment	(13,644)	(2,330)	1,430	(14,544)
General infrastructure	(11,390)	(323)	—	(11,713)
NC toll road system	(27,910)	(16,130)	—	(44,040)
Computer software	(168)	(9)	—	(177)
Total accumulated depreciation	(79,137)	(21,147)	1,431	(98,853)
Total Capital Assets-depreciable, net	845,625	(7,451)	(298)	837,876
Business-type activities Capital Assets, net	$ 1,213,315	$ 74,424	$ (298)	$ 1,287,441

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

Governmental activities	
General government	$ 26,547
Primary and secondary education	2,009
Higher education	147
Health and human services	26,800
Economic development	1,183
Environment and natural resources	16,607
Public safety, corrections, and regulation	56,734
Transportation	701,385
Agriculture	6,813
Total depreciation expense	$ 838,225
Business-type activities	
N.C. State Lottery	$ 568
EPA Revolving Loan	31
N.C. Turnpike Authority	16,130
Regulatory programs	2,465
North Carolina State Fair	1,106
Other business-type activities	847
Total depreciation expense	$ 21,147

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, 2015, was as follows (dollars in thousands):

University of North Carolina System	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, nondepreciable				
Land and permanent easements	$ 396,331	$ 12,866	$ (690)	$ 408,507
Art, literature, and other artifacts	186,045	3,832	(23)	189,854
Construction in progress	636,225	618,550	(470,373)	784,402
Computer software in development	65,405	2,327	(66,271)	1,461
Other intangible assets	8,705	—	—	8,705
Total capital assets-nondepreciable	1,292,711	637,575	(537,357)	1,392,929
Capital Assets, depreciable				
Buildings	12,088,318	481,818	(22,977)	12,547,159
Machinery and equipment	2,391,874	170,510	(102,258)	2,460,126
Art, literature, and other artifacts	202	—	—	202
General infrastructure	1,895,020	34,172	(8,443)	1,920,749
Computer software	205,276	115,948	(1,820)	319,404
Other intangible assets	1,200	—	—	1,200
Total capital assets-depreciable	16,581,890	802,448	(135,498)	17,248,840
Less accumulated depreciation for				
Buildings	(3,389,865)	(298,367)	15,385	(3,672,847)
Machinery and equipment	(1,522,344)	(160,909)	90,864	(1,592,389)
Art, literature, and other artifacts	(153)	(17)	—	(170)
General infrastructure	(616,162)	(50,668)	595	(666,235)
Computer software	(65,813)	(19,479)	1,903	(83,389)
Other intangible assets	(1,370)	(120)	—	(1,490)
Total accumulated depreciation	(5,595,707)	(529,560)	108,747	(6,016,520)
Total capital assets-depreciable, net	10,986,183	272,888	(26,751)	11,232,320
University of North Carolina System capital assets, net	$ 12,278,894	$ 910,463	$ (564,108)	$ 12,625,249

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2015, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of $40.649 million and net depreciable capital assets of $94.934 million.

Community Colleges

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, nondepreciable				
Land and permanent easements	$ 170,967	$ 3,521	$ (79)	$ 174,409
Art, literature, and other artifacts	536	8	—	544
Construction in progress	162,701	163,130	(124,524)	201,307
Total capital assets-nondepreciable	334,204	166,659	(124,603)	376,260
Capital Assets, depreciable				
Buildings	2,648,141	121,991	(1,857)	2,768,275
Machinery and equipment	392,159	42,727	(11,131)	423,755
Art, literature, and other artifacts	574	172	—	746
General infrastructure	168,841	12,651	(71)	181,421
Computer software	1,207	—	—	1,207
Total capital assets-depreciable	3,210,922	177,541	(13,059)	3,375,404
Less accumulated depreciation for				
Buildings	(705,698)	(52,456)	108	(758,046)
Machinery and equipment	(154,374)	(23,037)	8,530	(168,881)
Art, literature, and other artifacts	(128)	(15)	—	(143)
General infrastructure	(44,993)	(3,983)	156	(48,820)
Computer software	(734)	(121)	—	(855)
Total accumulated depreciation	(905,927)	(79,612)	8,794	(976,745)
Total capital assets-depreciable, net	2,304,995	97,929	(4,265)	2,398,659
Community Colleges capital assets, net	$ 2,639,199	$ 264,588	$ (128,868)	$ 2,774,919

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2015, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of $7.168 million and net depreciable capital assets of $6.926 million.

NOTE 6: SHORT-TERM DEBT

Component Units

University of North Carolina System

The University of North Carolina at Chapel Hill issued commercial paper to provide interim financing for the construction of capital projects. In June of 2012, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of commercial paper for the Unversity of North Carolina at Chapel Hill under this program to $250 million. The University had draws during the year totaling $10 million to bring the total amount of outstanding commercial paper as of June 30, 2015 to $28 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, 2015, the amount of outstanding commercial paper was $10 million.

On June 17, 2015, North Carolina A&T State University issued bond anticipation notes under the University of North Carolina General Trust Indenture, dated June 1, 2015, for the construction of a new student union. The notes were structured to provide advances up to $10 million and were allocated between tax-exempt and taxable debt in the amounts of $8.5 million and $1.5 million, respectively. As of June 30, 2015, the amount of outstanding anticipation notes was $5 million.

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, 2015 was $30.212 million.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2015, is as follows (dollars in thousands):

	Balance July 1, 2014	Draws	Repayments	Balance June 30, 2015
University of North Carolina System				
Commercial paper program	$ 28,000	$ 10,000	$ —	$ 38,000
Anticipation notes	—	5,000	—	5,000
Line of credit	12,331	38,488	(20,607)	30,212
Total short-term debt	$ 40,331	$ 53,488	$ (20,607)	$ 73,212

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):

	Changes in Fair Value		Fair Value at June 30, 2015		
Type	Classification	Increase (Decrease)	Classification	Debit (Credit)	Notional
Primary Government					
Fiduciary Funds					
Investment derivatives:					
U.S. dollar equity futures	Investment earnings	$ (16,254)	State Treasurer Investment Pool	$ (16,254)	$1,263,527
Foreign equity futures	Investment earnings	(14,567)	State Treasurer Investment Pool	(14,567)	(a)
Total		$ (30,821)		$ (30,821)	
Component Units					
University of North Carolina System					
Cash flow hedges:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Deferred outflow of resources	$ (13,616)	Hedging derivatives liability	$ (96,806)	$ 250,000
N.C. State University	Deferred outflow of resources	164	Hedging derivatives liability	(11,808)	$ 74,655
UNC at Pembroke	Deferred outflow of resources	(215)	Hedging derivatives liability	(1,887)	$ 9,190
Fayetteville State University	Deferred outflow of resources	(135)	Hedging derivatives liability	(2,084)	$ 10,890
N.C. Central University	Deferred outflow of resources	10	Hedging derivatives liability	(1,063)	$ 7,114
UNC Hospitals	Deferred outflow of resources	843	Hedging derivatives liability	(16,730)	$ 121,170
Total		$ (12,949)		$(130,378)	
Investment derivatives:					
UNC at Chapel Hill:					
Pay-fixed interest rate swap	Operating grants and contributions	$ 209	Accounts payable	$ (3,620)	$ 16,895
U.S. dollar equity futures	Operating grants and contributions	8,340	Investments	49,157	$ 48,073
Foreign equity futures	Operating grants and contributions	3,445	Investments	11,019	(b)
Foreign exchange futures	Operating grants and contributions	(760)	Investments	19,240	(c)
Foreign currency futures	Operating grants and contributions	16,500	Investments	21,875	$ (157,718)
Total		$ 27,734		$ 97,671	

(a) 94 million australian dollars; 60 million canadian dollars; 331 million euro; 126 million hong kong dollars; 28 billion yen; and 130 million british pounds.
(b) 1 billion yen.
(c) 17 million euro.

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.

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, 2015 (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	$ 9,190	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	$ 10,890	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	$ 7,114	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	$ 91,665	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	$ 29,505	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, 2015. The fair values are calculated as of June 30, 2015. 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.

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, 2015. 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, 2015. Both of the swaps outstanding have termination dates greater than 11 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, 2015, the SIFMA rate was 0.07%, whereas 75% of LIBOR was 0.14%.

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, 2015, the interest rate on the University's swap is benchmarked to 67% of one-month LIBOR, which is 0.13%. 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, 2015, the interest rate upon the demand bond was 0.08%.

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, 2015, 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, 2015, the interest rate upon the demand bond was 0.08%.

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

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, 2015. 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, 2015, 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, 2015.

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, 2015. 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, 2015.

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 foreign equity futures. The investment disclosures for these derivatives are included as part of the equity based trust and alternative investments 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:

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, 2015. 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, 2015. 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, 2015, SIFMA was 0.05%. The interest rate swap has a notional amount of $16.9 million and matures November 1, 2025.

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

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 two SGICs with The Prudential Insurance Company of America (Prudential), one SGIC with Nationwide Life Insurance Company (Nationwide Life), and one SGIC with American General Life Insurance Company (American General) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.37%, 2.37%, 1.79%, and 1.19%, respectively. The fair value of the securities covered by the contracts as of December 31, 2014, is $1.11 billion and the contract value is $1.08 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 two SGICs with Prudential, one SGIC with Nationwide Life, and one SGIC with American General which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.45%, 2.45%, 1.76%, and 1.19%, respectively. The fair value of the securities covered by the contracts as of December 31, 2014, is $232 million and the contract value is $227 million. The contracts are unrated and have a maturity of less than one year.

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

NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2015, was as follows (dollars in thousands):

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015	Due Within One Year
Governmental activities					
Bonds and similar debt payable:					
General obligation bonds	$ 3,607,100	$ 231,360	$ (369,240)	$ 3,469,220	$ 382,140
Special indebtedness:					
Lease-purchase revenue bonds	4,125	—	(2,125)	2,000	2,000
Certificates of participation	247,615	—	(95,870)	151,745	26,925
Limited obligation bonds	2,132,085	299,020	(335,555)	2,095,550	98,480
GARVEE bonds	395,275	264,930	(62,040)	598,165	68,410
Issuance premium	558,928	117,506	(126,041)	550,393	—
Total bonds and similar debt payable	6,945,128	912,816	(990,871)	6,867,073	577,955
Notes payable	39,738	64	(5,707)	34,095	6,897
Capital leases payable	17,914	1,558	(1,636)	17,836	1,797
Compensated absences	420,585	327,568	(291,450)	456,703	50,740
Net pension liability	1,537,313	—	(1,192,349)	344,964	—
Workers' compensation	177,714	90,929	(66,480)	202,163	59,986
Death benefit payable	490	—	(70)	420	270
Pollution remediation payable	7,004	175	(758)	6,421	239
Claims and judgments payable	741,703	—	(4,400)	737,303	3,300
Governmental activity long-term liabilities	$ 9,887,589	$ 1,333,110	$ (2,553,721)	$ 8,666,978	$ 701,184
Business-type activities					
Bonds payable:					
Revenue bonds	$ 1,039,308	$ —	$ (19,720)	$ 1,019,588	$ 8,200
GARVEE bonds	145,535	—	—	145,535	—
Issuance premium	25,932	—	(2,606)	23,326	—
Issuance discount	(1,780)	—	116	(1,664)	—
Total bonds payable	1,208,995	—	(22,210)	1,186,785	8,200
Notes payable	392,592	303	(2,077)	390,818	998
Annuity and life income payable	58,318	8,140	(4,604)	61,854	5,136
Federal unemployment account advances	980,986	191,724	(1,172,710)	—	—
Compensated absences	7,871	7,000	(6,130)	8,741	1,405
Net pension liability	30,909	—	(24,963)	5,946	—
Business-type activity long-term liabilities	$ 2,679,671	$ 207,167	$ (1,232,694)	$ 1,654,144	$ 15,739

For governmental activities, the compensated absences, net pension liability, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences and net pension liability is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of $6.33 million, net pension liability of $3.02 million and capital leases payable of $165 thousand. More detailed information about the net pension liability is presented in Note 12 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Component Unit (University of North Carolina System). Long-term liability activity for the year ended June 30, 2015, was as follows (dollars in thousands):

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015	Due Within One Year
University of North Carolina System					
Bonds payable:					
Revenue bonds	$ 3,935,684	$ 476,606	$ (463,475)	$ 3,948,815	$ 212,004
Certificates of participation	213,915	5,400	(96,075)	123,240	2,675
Limited obligation bonds	9,105	81,315	(350)	90,070	2,110
Issuance premium	120,539	19,198	(18,472)	121,265	—
Issuance discount	(14,921)	(186)	3,577	(11,530)	—
Total bonds payable	4,264,322	582,333	(574,795)	4,271,860	216,789
Notes payable	356,446	47,893	(29,947)	374,392	24,329
Capital leases payable	46,519	31,494	(40,651)	37,362	6,567
Arbitrage rebate payable	325	100	—	425	—
Annuity and life income payable	21,902	958	(1,822)	21,038	1,439
Compensated absences	389,151	337,465	(313,794)	412,822	53,895
Net pension liability	1,056,047	—	(707,626)	348,421	—
Pollution remediation payable	85	—	(52)	33	23
Liability insurance trust fund payable	41,843	—	(4,997)	36,846	7,591
Total long-term liabilities	$ 6,176,640	$ 1,000,243	$ (1,673,684)	$ 5,503,199	$ 310,633

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2015, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $171.9 million, of which $11.073 million was due within one year and $160.827 million was due in more than one year. More detailed information about the net pension liability is presented in Note 12 to the financial statements.

B. Bonds, Special Indebtedness, and Notes Payable

Bonds, special indebtedness, and notes payable at June 30, 2015 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Fiscal Year	Original Borrowing	Outstanding Balance
Primary Government				
Governmental activities				
General obligation bonds	3.00% - 5.25%	2035	$ 5,347,125	$ 3,469,220
Special indebtedness:				
Lease-purchase revenue bonds	3.60% - 5.25%	2016	53,640	2,000
Certificates of participation	4.00% - 5.00%	2028	575,000	151,745
Limited obligation bonds	2.25% - 5.25%	2033	2,615,940	2,095,550
GARVEE bonds	2.00% - 5.21%	2030	974,555	598,165
Notes payable	0.00% - 3.86%	2030	51,858	34,095
Business-type activities				
Revenue bonds**	2.48% - 7.10%	2042	$ 1,081,183	$ 1,019,588
GARVEE bonds	2.00% - 4.00%	2023	145,535	145,535
Notes payable	0.00% - 4.25%	2043	394,204	390,818
Component Units				
University of North Carolina System				
Revenue bonds**	0.04% - 8.35%*	2045	$ 4,594,757	$ 3,948,815
Certificates of participation	2.99% - 5.25%	2039	135,170	123,240
Limited obligation bonds	0.96% - 5.00%	2035	90,715	90,070
Notes payable	0.00% - 5.75%*	2033	433,886	374,392

* For variable rate debt, interest rates in effect at June 30, 2015 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 $420.71 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. Debt Authorized but Unissued

At June 30, 2015, the State had no authorized but unissued general obligation bonds and special indebtedness.

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

General Statute 143-64.17 as amended allows state agencies and universities to utilize Guaranteed Energy Savings Contracts to implement and finance major facility upgrades which save energy and reduce utility expenditures. The State and universities currently are authorized to finance up to $500 million for such projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. At June 30, 2015, a total of $229.7 million of such contacts have been entered into by the State and universities.

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 Merrill Lynch, Pierce, Fenner & Smith Inc. (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

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

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

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

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

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

The line of credit agreement with U.S. Bank, N.A., Wells Fargo Bank, N.A., and Royal Bank of Canada expire on September 19, 2017, September 19, 2018 and September 18, 2019, respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2015, no purchase drawings had been made under the line of credit.

General Revenue, Series 2012D

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

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

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

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

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

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

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, 2015, 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 $42.63 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 began 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 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, 2015, there were no Bank Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire July 6, 2017, 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 $66.34 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.

Revenue Bonds, Series 2001A and Series 2001B

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

Effective September 21, 2015, Wells Fargo Bank, N.A. replaced Merrill Lynch, Pierce, Fenner & Smith Incorporated and Banc of America Securities, LLC as the Remarketing Agent for the Series 2001A and 2001B bonds. While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. The Hospitals' Remarketing Agent has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears, on the first business day of each March, June, September, and December, commencing December 1, 2015 and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

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

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

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

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase to and including the 60th day thereafter and while they are Bank Bonds, bear interest at the Formula Rate (base rate equal to the higher of the Prime Rate plus 1% for such day or the sum of 1% plus the Federal Funds Rate) and from and including the 61st day following the purchase date and thereafter bear interest at the higher of the Formula Rate or 7%, subject to a maximum rate as permitted by law; provided however, that at no time shall the base rate be less than the applicable rate of interest on the bonds which are not Bank Bonds. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2015, 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 $92 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $23.94 million, $23.07 million, $21.78 million, $20.49 million, and $19.21 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 September 20, 2020. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider.

Revenue Refunding Bonds, Series 2003A and Series 2003B

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

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

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

The 2003A Agreement with Bank of America, N.A. required a commitment fee of 0.34% for fiscal year 2015. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter until July 1, 2015. The long-term agreement was renegotiated in June 2015 with a decrease in liquidity fee to 0.33% effective July 1, 2015 through July 1, 2016. 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:

S&P	Moody's	Commitment Rate
A	A2	0.54%
A- or lower	A3 or lower	0.74%

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

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime Rate plus 1.5% or the Federal Funds Rate plus 3%, the base rate, for the first 90 days and then the base rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the base rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2015, 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 $59.62 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $22.67 million, $21.87 million, and $20.73 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%).

NOTES TO THE FINANCIAL STATEMENTS

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.35% for fiscal year 2015. 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:

S&P	Moody's	Commitment Rate
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, 2015, 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 $32.05 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $10.75 million, $13.51 million, and $12.39 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.

Effective September 21, 2015, TD Securities (USA) LLC replaced Banc of America Securities, LLC as the Remarketing Agent for the Series 2009A bonds. While in the weekly mode, TD Securities has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2009A.

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

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

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

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

Included in the 2009A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2009A Agreement allows the Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take out agreement were to be exercised because the entire outstanding $29.51 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $8.33 million, $8.17 million, $7.86 million, and $7.55 million in years one, two, three and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 3.25%.

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

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, 2015 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

	Governmental Activities					
Fiscal Year	General Obligation Bonds		Certificates of Participation		Lease-Purchase Revenue Bonds	
Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 382,140	$ 162,601	$ 26,925	$ 7,005	$ 2,000	$ 51
2017	379,905	142,006	22,415	5,659	—	—
2018	390,995	124,982	22,935	4,538	—	—
2019	393,540	106,359	3,750	3,391	—	—
2020	362,310	87,704	3,750	3,241	—	—
2021-2025	1,200,735	230,732	18,750	13,572	—	—
2026-2030	301,770	42,003	53,220	5,069	—	—
2031-2035	57,825	6,592	—	—	—	—
Total	$ 3,469,220	$ 902,979	$ 151,745	$ 42,475	$ 2,000	$ 51

	Governmental Activities					
Fiscal Year	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 98,480	$ 98,198	$ 68,410	$ 25,816	$ 6,897	$ 871
2017	108,700	93,197	67,605	26,009	4,323	737
2018	112,295	87,803	70,805	22,812	4,555	596
2019	135,015	82,252	70,445	19,371	1,848	446
2020	154,015	75,196	38,270	16,068	1,609	395
2021-2025	785,450	261,112	116,865	58,618	9,110	1,330
2026-2030	555,110	99,203	165,765	25,673	5,753	226
2031-2035	146,485	8,557	—	—	—	—
Total	$ 2,095,550	$ 805,518	$ 598,165	$ 194,367	$ 34,095	$ 4,601

	Business-type Activities					
Fiscal Year	Revenue Bonds		GARVEE Bonds		Notes Payable	
Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 8,200	$ 55,555	$ —	$ 5,773	$ 998	$ 17,671
2017	11,960	55,178	—	5,773	1,026	18,871
2018	16,070	54,621	—	5,773	959	18,812
2019	19,595	53,835	3,755	5,821	2,117	18,766
2020	21,960	52,881	17,990	5,671	1,028	18,694
2021-2025	165,249	244,067	123,790	11,297	12,575	92,513
2026-2030	243,382	193,983	—	—	27,868	93,148
2031-2035	261,098	198,954	—	—	67,048	88,307
2036-2040	241,704	129,056	—	—	138,563	76,826
2041-2045	30,370	1,594	—	—	138,636	32,599
Total	$ 1,019,588	$ 1,039,724	$ 145,535	$ 40,108	$ 390,818	$ 476,207

Component Unit

University of North Carolina System

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Interest Rate Swaps, Net	Certificates of Participation Principal	Certificates of Participation Interest	Limited Obligation Bonds Principal	Limited Obligation Bonds Interest
2016	$ 136,407	$ 151,682	$ 15,285	$ 2,675	$ 5,736	$ 2,110	$ 3,921
2017	157,731	148,598	13,084	2,769	5,628	2,450	3,748
2018	176,107	144,341	9,825	3,098	5,519	2,595	3,683
2019	179,147	139,785	7,499	3,642	5,395	2,835	3,595
2020	162,359	135,133	6,808	3,982	5,240	3,090	3,509
2021-2025	710,150	603,207	22,546	22,495	23,401	19,165	15,477
2026-2030	777,609	468,947	4,292	27,544	17,853	24,340	10,846
2031-2035	1,001,185	286,511	212	32,805	10,660	26,525	5,380
2036-2040	480,885	87,868	—	24,230	2,604	6,960	479
2041-2045	167,235	13,274	—	—	—	—	—
Total	$ 3,948,815	$ 2,179,346	$ 79,551	$ 123,240	$ 82,036	$ 90,070	$ 50,638

Fiscal Year Ending June 30	Notes Payable Principal	Notes Payable Interest
2016	$ 24,329	$ 11,558
2017	54,676	10,764
2018	40,931	9,791
2019	24,998	8,843
2020	24,628	8,081
2021-2025	155,034	21,277
2026-2030	47,708	4,357
2031-2035	2,088	76
Total	$ 374,392	$ 74,747

For revenue bonds of the University of North Carolina System, the fiscal year 2016 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

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 November 19, 2014, the State of North Carolina issued approximately $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 will 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 special indebtedness as follows: Capital Improvement Certificates of Participation, Series 2005A, Series 2006A, and Series 2007A; Repairs and Renovations Certificates of Participation, Series 2006A; and Capital Improvement Limited Obligation Bonds, Series 2008A and Series 2009A; and 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 $21.1 million over the next 12 years and resulted in an economic gain of approximately $17.8 million. At June 30, 2015, the outstanding balance was $298.77 for the defeased bonds.

Component Unit

University of North Carolina System

The University of North Carolina at Chapel Hill
On October 9, 2014, the University issued $265.6 million in The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2014, with an average interest rate of 3.87%. The bonds were issued to advance refund $250 million of outstanding The University of North Carolina at Chapel Hill 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 has been 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 economic gain of $21.9 million. At June 30, 2015, the outstanding balance was $250 million for the defeased The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2005A bonds.

The University of North Carolina at Charlotte
On March 11, 2015, the University issued $37.06 million in The University of North Carolina Charlotte General Revenue Bonds, Series 2015 refunding bonds with an average interest rate of 4.06%. The bonds were issued to advance refund $36.26 million of outstanding The University of North Carolina Charlotte General Revenue Bonds, Series 2007B bonds with an average interest rate of 4.84%. 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 $3.58 million over the next 22 years and resulted in an economic gain of $2.51 million. At June 30, 2015, the outstanding balance was $36.26 million for the defeased The University of North Carolina Charlotte General Revenue Bonds, Series 2007B bonds.

The University of North Carolina at Wilmington
On May 12, 2015, the University issued $24.92 million in Refunding Limited Obligation Bonds, Series 2015 with an average interest rate of 4.38%. The bonds were issued for a current refunding of $27.36 million of outstanding Series 2005 Certificates of Participation with an average interest rate of 4.93%. The refunding was undertaken to reduce total debt service payments by $5.3 million over the next 21 years and resulted in an economic gain of $3.82 million.

On May 12, 2015, the University issued $34.63 million in Refunding Limited Obligation Bonds, Series 2015 with an average interest rate of 4.79%. The bonds were issued to advance refund $37.25 million of outstanding Series 2006 Certificates of Participation with an average interest rate of 4.93%. 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 $4.37 million over the next 22 years and resulted in an economic gain of $3.1 million. At June 30, 2015, the outstanding balance was $36.83 million for the defeased Series 2006 Certificates of Participation.

Appalachian State University
On November 25, 2014, the University issued $21.21 million in Appalachian State University General Revenue Refunding Bonds, Series 2014C with an average interest rate of 3.82%. The bonds were issued to advance refund $21.38 million of outstanding UNC System Pool Revenue Bonds, Series 2006A with an average interest rate of 4.96%. 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 $2.84 million over the next 17 years and resulted in an economic gain of $2.28 million. At June 30, 2015, the outstanding balance was $21.38 million for the defeased UNC System Pool Revenue Bonds, Series 2006A.

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, 2015, the outstanding balance of prior year defeased bonds was $493.31 million for the primary government and $85.29 million for the University of North Carolina System (component unit).

G. Pollution Remediation Payable

Primary Government

Governmental Activities

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of 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 26 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 $6.42 million, of which $6.17 million was for leaking underground fuel tanks at DOT and $250 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 $33 thousand for asbestos removal and underground storage tank removal at campus buildings. The amount of the liability was calculated from the estimated costs of the removal.

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, 2015, total operating lease expenditures were $77.9 million for Primary Government, $88.28 million for the University of North Carolina System, and $8.89 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, 2015 are as follows (dollars in thousands):

	Operating Leases				Capital Leases		
	Primary Government		Component Units		Primary Government	Component Units	
Fiscal Year	Governmental Activities	Business-type Activities	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2016	$ 46,348	$ 2,043	$ 58,037	$ 6,842	$ 2,478	$ 9,147	$ 3,415
2017	36,618	1,185	43,183	5,758	2,300	6,337	3,405
2018	23,410	583	36,380	5,142	2,248	6,289	3,385
2019	18,228	394	32,337	4,189	2,280	4,279	3,364
2020	10,944	298	27,894	3,592	2,081	5,998	3,271
2021 - 2025	25,047	1,268	104,433	11,886	9,584	2,399	16,565
2026 - 2030	10,425	—	40,115	6,555	—	1,175	15,116
2031 - 2035	8,072	—	14,240	201	—	2,073	4,111
2036 - 2040	8,072	—	346	48	—	2,141	8,396
2041 - 2045	8,072	—	200	—	—	—	—
2046 - 2050	8,072	—	40	—	—	—	—
2051 - Beyond	3,229	—	—	—	—	—	—
Total Future Minimum Lease Payments..	$ 206,537	$ 5,771	$ 357,205	$ 44,213	20,971	39,838	61,028
Less: Amounts Representing Interest					(3,135)	(2,476)	(24,438)
Present Value of Future Minimum Lease Payments					$ 17,836	$ 37,362	$ 36,590

At June 30, 2015, capital assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	Component Units	
	Governmental Activities	University of North Carolina System	Community Colleges
Buildings......................................	$ 25,401	$ 7,671	$ 40,623
Machinery and Equipment............	2,462	52,424	543
Other...	278	1,106	—
Total Capital Assets................	$ 28,141	$ 61,201	$ 41,166

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

NOTE 10: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $86.54 million due to fiduciary funds is composed of $26.99 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as $59.55 million related to retirement contributions payable to retirement systems at year end.

The Highway Fund balance of $18.22 million and the NC Turnpike Authority balance of $4.73 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, 2015, consisted of the following (dollars in thousands):

	Due From Other Funds								
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	NC State Lottery Fund	NC Turnpike Authority	Internal Service Funds	Total
Due To Other Funds									
General Fund	$ —	$ —	$ —	$ 8,333	$ 20,039	$ 5,275	$ —	$ 9,934	$ 43,581
Highway Fund	1,214	—	56	—	—	—	—	2,669	3,939
Highway Trust Fund	—	10,699	—	—	—	—	55	—	10,754
Other Governmental Funds	55	—	—	3	—	—	—	253	311
Unemployment Compensation Fund	256	—	—	—	—	—	—	—	256
EPA Revolving Loan Fund	—	—	—	—	—	—	—	24	24
NC State Lottery Fund	10,350	—	—	—	—	—	—	54	10,404
NC Turnpike Authority	—	449	174	—	—	—	—	2	625
Other Enterprise Funds	67	—	—	1	—	—	—	64	132
Internal Service Funds	1	—	—	—	—	—	—	472	473
Total	$11,943	$ 11,148	$ 230	$ 8,337	$ 20,039	$ 5,275	$ 55	$13,472	$ 70,499

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 $25.29 million to the North Carolina Turnpike Authority from the Highway Trust Fund is related to operating costs.

B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2015 consisted of the following (dollars in thousands):

	Transfers In							
Transfers Out	General Fund	Highway Fund	Other Governmental Funds	EPA Revolving Loan Fund	NC Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	Total
General Fund	$ —	$ —	$ 71,490	$ 9,379	$ —	$ 6,928	$ 4,822	$ 92,619
Highway Fund	272,231	—	4,467	—	31,442	—	—	308,140
Highway Trust Fund	430	31,701	—	—	62,238	—	—	94,369
Other Governmental Funds	128,211	217	3,809	5,205	—	60	30	137,532
Unemployment Compensation Fund	1,808	—	—	—	—	—	—	1,808
EPA Revolving Loan Fund	1,441	—	—	—	—	—	—	1,441
NC State Lottery Fund	526,427	—	1,000	—	—	—	—	527,427
Other Enterprise Funds	759	—	300	—	—	—	—	1,059
Internal Service Funds	57	—	—	—	—	—	5,762	5,819
Total	$ 931,364	$ 31,918	$ 81,066	$ 14,584	$ 93,680	$ 6,988	$ 10,614	$ 1,170,214

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 2015.

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 $526.43 million, as set forth in General Statute 18C-164.

NOTE 11: FUND BALANCE

Fund Balance. The details of the fund balance classifications for governmental funds at June 30, 2015 are as follows (dollars in thousands):

	Governmental Funds				
Fund Balance	*General Fund*	*Highway Fund*	*Highway Trust Fund*	*Other Governmental Funds*	*Total Governmental Funds*
Nonspendable:					
Inventories	$ 76,938	$ 83,918	$ —	$ 25,338	$ 186,194
Permanent corpus	—	—	—	102,627	102,627
Long-term portion of notes receivables	6,141	—	—	—	6,141
Restricted for:					
General government	4,629	—	—	689	5,318
Primary and secondary education	2,646	—	—	—	2,646
Higher education	3,819	—	—	4	3,823
Higher education student aid	—	—	—	605,810	605,810
Health and human services	109,300	—	—	918	110,218
Economic development	26,937	—	—	—	26,937
Environment and natural resources	12,680	—	—	26,102	38,782
Public safety, corrections, and regulation	13,564	—	—	55,738	69,302
Transportation	—	3,364	—	—	3,364
Highway Construction/ Preservation	—	193,558	—	—	193,558
Debt service	—	—	—	127,869	127,869
Capital projects/repairs and renovations	—	—	—	238,681	238,681
Committed to:					
General government	201,981	—	—	39,645	241,626
Primary and secondary education	141,411	—	—	—	141,411
Public school capital projects/repairs and renovations	117,269	—	—	—	117,269
Higher education	95,635	—	—	—	95,635
Health and human services	249,579	—	—	18,389	267,968
Economic development	82,449	—	—	36,359	118,808
Environment and natural resources	77,751	—	—	185,266	263,017
Public safety, corrections, and regulation	44,541	—	—	114,935	159,476
Transportation	—	32,206	—	177	32,383
Highway construction/preservation	—	29,256	1,128,033	—	1,157,289
Highway maintenance	—	24,789	—	—	24,789
Agriculture	17,449	—	—	20,004	37,453
Disaster relief	7,361	—	—	—	7,361
Capital projects/repairs and renovations	411,585	—	—	234,892	646,477
Assigned to:					
Subsequent year's budget	81,923	—	—	—	81,923
General government	25,884	—	—	—	25,884
Primary and secondary education	882	—	—	—	882
Higher education	638	—	—	—	638
Health and human services	215	—	—	—	215
Economic development	42	—	—	—	42
Environment and natural resources	2,945	—	—	—	2,945
Public safety, corrections, and regulation	4,176	—	—	—	4,176
Capital projects/repairs and renovations	—	—	—	1,011	1,011
Unassigned	688,173	—	—	—	688,173
Total fund balance	$ 2,508,543	$ 367,091	$ 1,128,033	$ 1,834,454	$ 5,838,121

NOTE 12: RETIREMENT PLANS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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 Fixed Income Asset Class includes the Long-term Investment and External Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio.

The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. 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 pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2015, the number of participating employers was as follows:

State of North Carolina	1
LEAs	116
Charter Schools	62
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
	261

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 membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

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

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. The State and other participating employers' contractually required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with plan member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to the employer contributions or any other benefit provided by TSERS.

2. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Local Governmental Employees' Retirement System (LGERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide benefits for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly. At June 30, 2015, the number of participating local governments was as follows:

Cities	425
Counties	100
Special Districts	363
	888

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 who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The actuarially determined contribution rate for employers is set annually by the LGERS Board of Trustees. For the fiscal year ended June 30, 2015, all employers made contributions of 7.06% of covered payroll for law enforcement officers and 7.54% for general employees and firefighters. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

3. FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND

Plan administration. The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a cost sharing, defined benefit pension plan with a special funding situation in that the State of North Carolina is not the employer but is legally obligated to contribute to the plan. The State established the plan to provide pension benefits for all eligible firefighters and rescue squad workers. Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Benefit provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. At June 30, 2015, there were 1,777 participating fire and rescue units.

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

Benefits provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is $170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of fully credited service as a firefighter or rescue squad worker regardless of whether the member has terminated paid employment. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

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

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

4. REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND

Plan administration. The State of North Carolina administers the Registers of Deeds' Supplemental Pension Fund (RODSPF) which is a cost-sharing, multiple-employer, defined benefit pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is comprised of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent locally sponsored plan and have met the statutory eligibility requirements. At June 30, 2015, there were 99 individuals receiving benefits in the plan with 100 counties participating. Benefit provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The State's only cost in the plan is administration.

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

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

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

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

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

Single-Employer Defined Benefit Plans

5. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

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

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – 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, or at age 50 with 24 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with five years of membership service. The reduced benefit is calculated using the same formula as a service retirement benefit, multiplied by a reduction percentage based on the member's age and/or service at early retirement. Survivor benefits are available to spouses of members who die while in active service after reaching age 50 with five years of service. The plan does not provide for automatic post-retirement benefit increases.

Contributions. Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. The State's contractually required contribution for the year ended June 30, 2015 was 27.21% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

Refund of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by CJRS.

6. LEGISLATIVE RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Legislative Retirement System (LRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly. The benefit will not be payable while the retiree is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System or Consolidated Judicial Retirement System. Benefit provisions are established by General Statute 120-4.21and 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. Contribution provisions are established by General Statutes 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 7% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. For the fiscal year ended June 30, 2015, there was no actuarially determined required contribution. The actuarially determined contributions combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

Refunds of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LRS.

7. NORTH CAROLINA NATIONAL GUARD PENSION FUND

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

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – 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 $99 per month for 20 years of creditable military service with an additional $9.90 per month for each additional year of such service; provided, however that the total pension shall not exceed $198 per month.

Contributions. Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation. Actual contributions are reported in Section F of this note.

Defined Contribution Plans

8. SHERIFFS’ SUPPLEMENTAL PENSION FUND

This plan is a defined contribution pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees’ Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2015, there were 96 sheriffs and four beneficiaries enrolled in the plan with 81 of the State’s 100 counties participating.

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

Receipts collected by each county’s Clerk of Superior Court under General Statutes 7A-304(a)(3a), along with investment income, support the plan’s benefits and administrative expenses. Sheriffs do not contribute to the plan. For the fiscal year ended June 30, 2015, the Clerks remitted $894 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. All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC are eligible to enroll in the 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. All contributions are immediately vested in the name of each participant. At December 31, 2014, there were approximately 247,900 employees enrolled with 998 participating employers. Benefit and contribution provisions are established by Chapter 135, Article 5 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly.

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

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, 2014, are presented in this financial report as a pension and other employee benefit trust fund. The 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 401(k) Plan. The 401(k) Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive $.50 for each court cost assessed and collected under General Statute 7A-304, while $1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2014, 56 state agencies and component units along with 467 local governmental units outside our reporting entity contributed the required 5%. In addition, five state agencies and 446 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,400 LEOs actively contributing to the 401(k) Plan and approximately 24,500 LEOs receiving employer contributions as of December 31, 2014. All LEO benefit and contribution provisions are established by North Carolina General Statutes 143-166.30 and 143-166.50 and may be amended only by the North Carolina General Assembly.

The 401(k) Plan reported total member contributions of $295.812 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2014, amounted to $160.628 million for the State, $25.15 million for universities, and $4.39 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for $8.132 million, by universities for $1.047 million, and by the remaining component units and community colleges for $231 thousand. In addition, the State contributed $361 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

The 401(k) Plan (Supplemental Retirement Plan) discloses a related party transaction in Note 20 of this CAFR. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The Supplemental Retirement Plan's investment risks are described in Note 3.

10. OPTIONAL RETIREMENT PROGRAM

The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and 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. The ORP is administered by the UNC System. At June 30, 2015, the plan had 17,400 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) and Fidelity Investments. Participants' eligibility and contributory requirements are established in General Statutes 135-5.1 and may be amended only by the North Carolina General Assembly. Participants are always fully vested in their own contributions to the plan and their investment earnings. Participants are fully vested in the university's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the university contributes 6.84%. The universities contributed $109.5 million for the fiscal year ended June 30, 2015. Annual covered payroll was $1.6 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 $96.1 million for the fiscal year ended June 30, 2015. The amount of pension expense recognized in the current fiscal year related to ORP was $103.9 million. Forfeitures reduced the universities' pension expense by $5.6 million for the fiscal year ended June 30, 2015. Any liabilities reported by the universities are immaterial to this CAFR.

C. Plan Membership

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

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Govern-mental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Inactive plan members or beneficiaries currently receiving benefits	194,607	60,408	12,730	95	610	300	4,421
Inactive plan members entitled to but not yet receiving benefits	134,871	55,298	153	-	50	93	5,317
Active plan members	314,956	123,184	43,134	100	566	170	5,661
	644,434	238,890	56,017	195	1,226	563	15,399
Valuation date	12-31-14	12-31-14	12-31-14	12-31-14	12-31-14	12-31-14	12-31-14

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, 2015. 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, 2015:

Asset Class	Target Allocation
Fixed Income	29.0%
Global Equity	42.0%
Real Estate	8.0%
Alternatives	8.0%
Credit	7.0%
Inflation Protection	6.0%
Total	100.0%

The preceding table reflects a new asset allocation policy which became 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.

Rate of return. For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

	Teachers' and State Employees'	Local Govern-mental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Money-weighted Rate of Return	2.27%	2.27%	2.26%	2.26%	2.27%	2.25%	2.25%

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, 2015, were as follows (dollars in thousands):

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Govern-mental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Total pension liability	$ 68,692,228	$ 23,496,136	$ 422,667	$ 23,820	$ 582,766	$ 23,952	$ 151,250
Plan fiduciary net position	65,007,030	23,047,342	386,308	46,994	538,534	28,456	110,529
Net pension liability (asset)	$ 3,685,198	$ 448,794	$ 36,359	$ (23,174)	$ 44,232	$ (4,504)	$ 40,721
Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.09%	91.40%	197.29%	92.41%	118.80%	73.08%

Actuarial assumptions. The total pension liability was determined by actuarial valuations as of December 31, 2014, 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, 2015 utilizing update procedures incorporating the actuarial assumptions.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees' (Note 1)	Local Govern-mental (Note 1)	Firefighters' and Rescue Squad	Registers of Deeds' (Note 1)	Consolidated Judicial (Note 1)	Legislative (Note 1)	North Carolina National Guard
Valuation date	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14
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 3.50% inflation and productivity factor
Note 2 - Investment rate of return is net of pension plan investment expense, including inflation.

For the fiscal year ended June 30, 2015, retirees in the Teachers' and State Employees' system and the Consolidated Judicial system received a 1% cost of living adjustment for retirees whose retirement began on or before July 1, 2013. Members with effective dates between August 1, 2013 and June 1, 2014 received a prorated amount. For the fiscal year ended June 30, 2015, retirees in the Legislative Retirement system received a 1% cost of living adjustment for retirees whose retirement began on or before January 1, 2014. Members with retirement effective dates between February 1, 2014 and June 1, 2014 received a prorated amount. The North Carolina National Guard Fund increased the monthly benefit from $95 to $99, the monthly additional benefit from $9.50 to $9.90 and the maximum monthly benefit from $190 to $198. Firefighters' and Rescue Squad Workers' Pension Fund made a change in benefit terms to allow for in-service distributions to members who are at least 55 years of age and have at least 20 years of creditable service. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2014. These enhancements were reflected as liabilities in the valuations described above.

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

The actuarial assumptions used in the December 31, 2014 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, 2015 (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	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information in the preceding table is based on 30 year expectations developed with the consulting actuary for the 2014 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.

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 Plans' net pension liability to changes in the discount rate. The following presents the net pension liability of the plans at June 30, 2015 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%)
Cost-Sharing, Multiple-Employer			
TSERS' net pension liability (asset)	$ 11,091,429	$ 3,685,198	$ (2,599,843)
LGERS' net pension liability (asset)	3,129,503	448,794	(1,809,644)
FRSWPF' net pension liability (asset)	86,337	36,359	(5,502)
Single-Employer			
CJRS' net pension liability (asset)	$ 99,695	$ 44,232	$ (3,843)
LRS' net pension asset	(2,756)	(4,504)	(6,040)
NCNGs' net pension liability	58,365	40,721	26,090

	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Cost-Sharing, Multiple-Employer			
RODs' net pension asset	$ (20,908)	$ (23,174)	$ (25,124)

F. GASB Statement 68 Employer Reporting

1. EMPLOYER CONTRIBUTIONS

The following table presents the primary government's and component units' contributions recognized by the pension plans at June 30, 2015 (dollars in thousands):

	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
Primary Government	$ 320,093	$ 13,900	$ 18,949	$ —	$ 6,039	$ 358,981
Component Units						
University of North Carolina System	$ 187,863	$ —	$ —	$ —	$ —	$ 187,863
Community Colleges	78,840	—	—	—	—	78,840
Other Component Units	2,340	—	—	—	—	2,340
Total Contributions	$ 589,136	$ 13,900	$ 18,949	$ —	$ 6,039	$ 628,024

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

As of June 30, 2015, the primary government and component units reported net pension liabilities for defined benefit pension plans administered by the State as follows (dollars in thousands):

		Component Units		
	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
Proportionate Share of the Net Pension Liability				
Teachers' and State Employees' Retirement System	$ 267,119	$ 173,441	$ 68,803	$ 2,049
Net Pension Liability				
Firefighters' and Rescue Squad	27,418	–	–	–
Consolidated Judicial	26,197	–	–	–
North Carolina National Guard	30,176	–	–	–
Total Net Pension Liability	$ 350,910	$ 173,441	$ 68,803	$ 2,049

The primary government also reported a net pension asset of $5,633 for the Legislative Retirement System. Each net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate each net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013. Update procedures were used to roll forward the total pension liability to June 30, 2014. For TSERS, the primary government's and each component unit's proportion of the collective net pension liability was based on a projection of the present value of future salaries relative to the projected present value of future salaries of all participating employers, actuarially determined. The primary government's proportion of the collective net pension liability was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year pension contributions.

The primary government's and component units' proportions of the collective net pension liability for the Teachers' and State Employees' Retirement System as of June 30, 2014 and 2013 were as follows:

		Component Units		
	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
Teachers' and State Employees' Retirement System				
Proportion – June 30, 2014	22.78%	14.79%	5.87%	0.17%
Proportion – June 30, 2013	22.95%	14.48%	5.80%	0.17%
Change – Increase (Decrease)	(0.17)	0.31	0.07	–

For the year ended June 30, 2015, the primary government and component units recognized pension expense for defined benefit pension plans administered by the State as follows (dollars in thousands):

		Component Units		
	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
Pension Expense				
Teachers' and State Employees' Retirement System	$ 115,834	$ 79,446	$ 31,207	$ 918
Consolidated Judicial	10,923	–	–	–
Legislative	247	–	–	–
Total Pension Expense	$ 127,004	$ 79,446	$ 31,207	$ 918

NOTES TO THE FINANCIAL STATEMENTS

As a result of its requirement to contribute, the primary government recognized expense of $10.32 million for FRSWPF and $7.22 million for NGPF for the year ended June 30, 2015. The primary government's proportion of the collective net pension liability for Firefighters' and Rescue Squad Workers' and for North Carolina National Guard was 100% and 100%, respectively, as of June 30, 2014 and 2013.

At June 30, 2015, the primary government and component units reported deferred outflows of resources related to defined benefit pension plans administered by the State from the following sources (dollars in thousands):

	Deferred Outflows of Resources					
	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
Primary Government:						
Difference between actual and expected experience	$ —	$ 2,458	$ —	$ 447	$ 115	$ 3,020
Change in proportion and differences between agency's contributions and proportionate share of contributions	12,592	—	—	—	—	12,592
Contributions subsequent to the measurement date	320,093	13,900	18,949	—	6,039	358,981
Total	$ 332,685	$ 16,358	$ 18,949	$ 447	$ 6,154	$ 374,593
Component Units:						
University of North Carolina System						
Change in proportion and differences between agency's contributions and proportionate share of contributions	$ 22,246					
Contributions subsequent to the measurement date	187,863					
Total	$ 210,109					
Community Colleges						
Change in proportion and differences between agency's contributions and proportionate share of contributions	$ 8,266					
Contributions subsequent to the measurement date	78,840					
Total	$ 87,106					
Other Component Units						
Change in proportion and differences between agency's contributions and proportionate share of contributions	$ 167					
Contributions subsequent to the measurement date	2,340					
Total	$ 2,507					

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2015, the primary government and component units reported deferred inflows of resources related to defined benefit pension plans administered by the State from the following sources (dollars in thousands):

	Deferred Inflows of Resources					
	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
Primary Government:						
Difference between actual and expected experience	$ 62,265	$ —	$ 1,982	$ —	$ —	$ 64,247
Changes of assumptions	—	15,115	—	—	—	15,115
Net difference between projected and actual earnings on pension plan investments	902,498	23,338	32,199	1,870	6,422	966,327
Change in proportion and differences between agency's contributions and proportionate share of contributions	6,934	—	—	—	—	6,934
Total	$ 971,697	$ 38,453	$ 34,181	$ 1,870	$ 6,422	$ 1,052,623
Component Units:						
University of North Carolina System						
Difference between actual and expected experience	$ 40,428					
Net difference between projected and actual earnings on pension plan investments	585,994					
Change in proportion and differences between agency's contributions and proportionate share of contributions	2,520					
Total	$ 628,942					
Community Colleges						
Difference between actual and expected experience	$ 16,037					
Net difference between projected and actual earnings on pension plan investments	232,459					
Change in proportion and differences between agency's contributions and proportionate share of contributions	1,611					
Total	$ 250,107					
Other Component Units						
Difference between actual and expected experience	$ 477					
Net difference between projected and actual earnings on pension plan investments	6,923					
Change in proportion and differences between agency's contributions and proportionate share of contributions	11					
Total	$ 7,411					

NOTES TO THE FINANCIAL STATEMENTS

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. These amounts are found in the preceding Deferred Outflows of Resources table. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

Teachers' and State Employees'

		Component Units		
Year Ending June 30	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
2016	$ (240,560)	$ (151,961)	$ (60,590)	$ (1,815)
2017	(240,560)	(151,961)	(60,590)	(1,815)
2018	(240,560)	(151,961)	(60,590)	(1,815)
2019	(237,423)	(150,814)	(60,071)	(1,798)

Other Plans

	Primary Government			
Year Ending June 30	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard
2016	$ (7,152)	$ (8,552)	$ (152)	$ (1,528)
2017	(7,152)	(8,552)	(335)	(1,567)
2018	(7,152)	(8,552)	(467)	(1,605)
2019	(7,150)	(8,525)	(467)	(1,605)
2020	(1,317)	–	(2)	(2)
Thereafter	(6,072)	–	–	–

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Teachers' and State Employees' (Note 1)	Firefighters' and Rescue Squad	Consolidated Judicial (Note 1)	Legislative	North Carolina National Guard
Valuation date	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13
Inflation	3%	3.5%	3%	3%	3%
Salary Increases	4.25%-9.10%	N/A	5.00%-5.95%	7.50%	N/A
Investment Rate of Return (Note 2)	7.25%	7.25%	7.25%	7.25%	7.25%

Note 1 - Salary increases include 3.5% inflation and productivity factor
Note 2 - Investment rate of return is net of pension plan investment expense, including inflation

The following table presents the adopted asset allocation policy and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

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

	Net Pension Liability (Asset)		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Teachers' and State Employees' Proportionate Share			
Primary Government	$ 1,917,562	$ 267,119	$ (1,126,441)
University of North Carolina System	1,245,079	173,441	(731,402)
Community Colleges	493,911	68,803	(290,140)
Other Component Units	14,712	2,049	(8,642)
Firefighters' and Rescue Squad	$ 76,699	$ 27,418	$ (13,861)
Consolidated Judicial	$ 80,338	$ 26,197	$ (20,692)
Legislative	$ (3,859)	$ (5,633)	$ (7,190)
North Carolina National Guard	$ 46,567	$ 30,176	$ 16,578

3. CHANGES IN NET PENSION LIABILITY (ASSET) FOR SINGLE-EMPLOYER, DEFINED-BENEFIT PLANS

The following schedule presents the changes in the net pension liability for the single-employer, defined-benefit plans as of June 30, 2015 (dollars in thousands):

	Consolidated Judicial	Legislative
Total pension liability		
Service Cost	$ 16,637	$ 747
Interest	39,405	1,678
Changes of benefit terms	3,031	146
Differences between expected and actual experience	(2,484)	762
Benefit payments, including refunds of member contributions	(35,428)	(2,614)
Net change in total pension liability	21,161	719
Total pension liability - beginning (a)	544,600	23,699
Total pension liability - ending (c)	$ 565,761	$ 24,418
Plan fiduciary net position		
Contributions-employer	$ 21,390	$ -
Contributions-member	5,598	253
Net investment income	74,294	4,293
Benefit payments, including refunds of member contributions	(35,428)	(2,614)
Administrative expense	(48)	(37)
Other	3	-
Net change in plan fiduciary net position	65,809	1,895
Plan fiduciary net position - beginning (b)	473,755	28,156
Plan fiduciary net position - ending (d)	$ 539,564	$ 30,051
Net pension liability (asset) - beginning (a) - (b)	70,845	(4,457)
Net pension liability (asset) - ending (c) - (d)	$ 26,197	$ (5,633)

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, 2015, the State and its major component units paid $16.4 million for 968 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.

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, 2014, there were approximately 51,900 plan members with 331 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, 2014 are presented in this financial report as a pension and other employee benefit trust fund. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 457 Plan. The 457 Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The 457 Plan discloses a related party transaction in Note 20 of this CAFR. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The 457 Plan's investment risks are described in Note 3.

2. IRC SECTION 403(B) PLANS

IRC Section 403(b) Plans – Employees of the University of North Carolina System and community colleges can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). Generally all employees are eligible, but the IRC does allow the establishment of a minimum contribution of $200 and the exclusion from participation of certain classes of employees. Each institution may exclude one or more of these classes if every employee within the institution meeting the class criteria is excluded from participation. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. Effective January 1, 1989, contributions may be withdrawn by employees only upon separation from service, death, disability, reaching age 59 1/2 or age 55 with qualifying retirement, or due to certain financial hardships. Currently, there is no restriction on the withdrawal of the value of annuity contracts. Custodial accounts established as of December 31, 1988 can be withdrawn only in respect to hardship established as of December 31, 1988. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. Since all contributions are made voluntarily by employees, all costs are borne by the plans' participants. No direct costs are incurred by the State.

Effective July 1, 2011, the Department of State Treasurer was granted authority by General Statute 115C-341.2 to establish a State sponsored 403(b) Plan entitled the North Carolina Public School Teachers' and Professional Educators' Investment Plan. The State sponsored 403(b) Plan (NC 403(b) Plan) is available to all local school Boards of Education across the State. Each individual Board of Education has the discretion to adopt the NC 403(b) Plan. The N.C. Department of State Treasurer administers the NC 403(b) Plan and the Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), serves as the record keeper. The NC 403(b) Plan is designed to provide a low-cost supplemental retirement savings option to public school employees. At June 30, 2015, there were 41 school districts enrolled in the Plan with 910 public school employees participating.

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, 2015, the number of participating employers was as follows:

State of North Carolina	1
LEAs	116
Charter Schools	80
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
Local governments	18
Total	297

The Plan is reported as a major component unit. It is administered by the State Treasurer, the Board of Trustees, and the Executive Administrator. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees. Plan benefits received by retired employees and disabled employees are other postemployment benefits (OPEB). The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options or the self-funded Traditional 70/30 Preferred Provider Organization (PPO) plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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 5.49% 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 156. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

2. *DISABILITY INCOME*

As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2015, the State and the other employers made a statutory contribution of 0.41% of covered payroll. This was equal to the actuarially required contribution. The State's total payments are shown in the table on page 156. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* of this CAFR.

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

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System. The plan does not provide for automatic post-retirement benefit increases.

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

Required Contributions as an Employer
For the Years Ended June 30, 2013 through June 30, 2015
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2015	$ 182,167	$ 13,604
2014	176,765	14,403
2013	175,722	14,588
Component units:		
Universities:		
2015	$ 206,262	$ 15,404
2014	197,870	16,123
2013	189,556	15,737
Community Colleges:		
2015	$ 47,511	$ 3,548
2014	46,083	3,755
2013	44,958	3,732
Other Component Units:		
2015	$ 426	$ 32
2014	415	34
2013	397	33
Percentage Contributed:		
2015	100%	100%
2014	100%	100%
2013	100%	100%

For 2015 and the two preceding years, the primary government and component units together contributed 100% of the required contributions for Retiree Health Benefit and Disability Income.

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

	Retiree Health Benefit	Disability Income
Retirees and beneficiaries currently receiving benefits	201,212	N/A
Disabled members receiving long term disability benefits	N/A	6,900
Terminated employees entitled to benefits but not yet receiving them	34,150	-
Active plan members	346,964	323,579
Total	582,326	330,479
Date of valuation	*12/31/14*	*12/31/14*

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
Retiree Health (1)	12/31/14	$ 944,955	$ 27,559,481	$ 26,614,526	3.4%	$ 15,642,890	170.1%
Disability Income (2)	12/31/14	$ 450,599	$ 503,060	$ 52,461	89.6%	$ 14,459,667	0.4%

(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, 2014. The latest actuarial valuation for DIPNC is dated December 31, 2014. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

	Retiree Health Benefit	Disability Income
Valuation Date	12/31/14	12/31/14
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% 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

NOTE 15: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

Public School Insurance Fund

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

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

The 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	
	2015	2014
Unpaid claims at beginning of year	$ 7,161	$ 7,960
Incurred claims:		
Provision for insured events of the current year	10,524	8,585
Increases (decreases) in provision for insured events of prior years	(1,899)	(6,453)
Total incurred claims	8,625	2,132
Payments:		
Claims attributable to insured events of the current year	1,448	1,845
Claims attributable to insured events of the prior years	4,162	1,086
Total payments	5,610	2,931
Total unpaid claims at end of the year	$ 10,176	$ 7,161

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than $10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is $45.5 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of $15 million apply separately with respect to flood and earthquake. Coverage applies to "all risk" perils. Boiler and machinery coverage is provided under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently, there are no claims for reinsuance.

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
2013-14	$ 245,331	$ 2,606,997	$ (2,619,652)	$ 232,676
2014-15	232,676	2,715,826	(2,663,469)	285,033

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, 2014 to June 30, 2015, 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 2014 to June 2015.

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
2013-14	$ 3,482	$ 44,612	$ (44,134)	$ 3,960
2014-15	3,960	48,719	(50,119)	2,560

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day following at least 365 calendar days of employment as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. 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.

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
2013-14	$ 1,119	$ 1,238	$ (1,017)	$ 1,340
2014-15	1,340	978	(706)	1,612

2. Medical Malpractice Protection

a. Professional Liability Insurance for State Medical Personnel

Agencies of the State and participating component units are insured under the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. This act allows partial waiver of sovereign immunity up to $1 million that the State may pay cumulatively to all claimants on account of injury and damage to any one person arising out of a single occurrence. The State has purchased commercial liability insurance for state employees which is in excess over recovery from the Tort Claims Act and Defense of State Employees Act; however, claims involving medical malpractice are generally excluded from this coverage.

The University of North Carolina at Chapel Hill Medical School and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. East Carolina University (ECU) provides medical malpractice insurance for the Brody School of Medicine faculty physicians and independently licensed allied health providers. There is a shared blanket policy for all other employees of the ECU Physicians. The medical malpractice insurance is with a private insurance company with coverage of $3 million per occurrence, $5 million annual aggregate, and a $200,000 deductible; as well as an excess policy in the amount of $10 million. All other universities purchase medical professional liability insurance.

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of 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, 2014 and June 30, 2015, 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, 2014 and June 30, 2015, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed $10 million in the aggregate into the Reimbursement Fund during previous fiscal years for future losses.

For the fiscal year ending June 30, 2015, 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 $41.842 million and $36.846 million are the present values of the aggregate actuarially determined claims liabilities of $49.480 million and $56.732 million, discounted at 0.5% at June 30, 2014 and 0.5% at June 30, 2015.

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
2013-14	$ 44,282	$ 1,588	$ (4,028)	$ 41,842
2014-15	41,842	(1,188)	(3,808)	36,846

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 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 in the general 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
2013-14	$ 150,251	$ 90,927	$ (63,464)	$ 177,714
2014-15	177,714	90,929	(66,480)	202,163

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, 2015, the Fund consisted of 1,115 eligible units representing approximately 42,492 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, 2015, 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 loss and aggregate reinsurance policies. As of June 30, 2015, there are claims recoverable from reinsurers in the amount of $338 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
2013-14	$ 18,581	$ 10,523	$ (7,554)	$ 21,550
2014-15	21,550	7,472	(7,397)	$ 21,625

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, 2015 are presented below.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

(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	$ 152,473	$ 1,056	$ 267	$ 1,979	$ 1,028	$ 75,211
Investments:						
Collective investment funds	—	—	—	—	—	—
Unallocated insurance contracts	—	—	—	—	—	—
Synthetic guaranteed investment contracts	—	—	—	—	—	—
State Treasurer investment pool	64,739,462	535,618	28,171	384,295	109,490	22,925,299
Non-State Treasurer pooled investments	—	—	—	—	—	—
Securities lending collateral	2,919,070	24,132	1,284	17,395	4,989	1,035,281
Receivables:						
Accounts receivable	3,702	1	3	33	10	3,194
Interest receivable	177	1	—	1	1	59
Contributions receivable	66,493	—	21	—	—	44,094
Due from other funds	40,926	1,915	—	—	—	—
Due from component units	11,405	—	—	—	—	—
Notes receivable	—	—	—	—	—	—
Total Assets	67,933,708	562,723	29,746	403,703	115,518	24,083,138
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable	—	—	—	—	—	—
Benefits payable	894	1	—	—	—	496
Obligations under securities lending	2,919,070	24,132	1,284	17,395	4,989	1,035,281
Funds held for others	6,714	56	6	—	—	19
Total Liabilities	2,926,678	24,189	1,290	17,395	4,989	1,035,796
Net Position						
Restricted for:						
Pension benefits	65,007,030	538,534	28,456	386,308	110,529	23,047,342
Postemployment benefits	—	—	—	—	—	—
Other employment benefits	—	—	—	—	—	—
Total Net Position	$ 65,007,030	$ 538,534	$ 28,456	$ 386,308	$ 110,529	$ 23,047,342

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	*Totals*
$ —	$ —	$ 4,485	$ 144,514	$ 3,572	$ 911	$ 135	$ 385,631
194,345	34,062	—	—	—	—	—	228,407
628,871	133,348	—	—	—	—	—	762,219
1,082,102	226,669	—	—	—	—	—	1,308,771
—	—	394,158	853,416	398,980	—	46,790	90,415,679
5,932,825	753,311	—	—	—	—	—	6,686,136
—	—	38,394	48,263	38,790	62	4,530	4,132,190
266	43	—	—	23,540	—	—	30,792
—	—	5	63	3	1	—	311
5,478	413	722	30,050	2,240	—	68	149,579
—	—	433	15,167	1,109	—	—	59,550
—	—	121	6,802	508	—	—	18,836
285,875	18,413	—	—	—	—	—	304,288
8,129,762	1,166,259	438,318	1,098,275	468,742	974	51,523	104,482,389
1,130	352	100	—	—	—	—	1,582
—	—	2,560	—	302	—	—	4,253
—	—	38,394	48,263	38,790	62	4,529	4,132,189
—	—	—	—	181	—	—	6,976
1,130	352	41,054	48,263	39,273	62	4,529	4,145,000
8,128,632	—	—	—	—	912	46,994	97,294,737
—	—	—	1,050,012	429,469	—	—	1,479,481
—	1,165,907	397,264	—	—	—	—	1,563,171
$ 8,128,632	$ 1,165,907	$ 397,264	$ 1,050,012	$ 429,469	$ 912	$ 46,994	$ 100,337,389

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2015
(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	$ 1,262,988	$ 18,949	$ —	$ —	$ —	$ 408,694
Members	854,306	6,239	253	2,822	—	363,863
Other contributions	—	—	—	13,900	6,039	—
Total contributions	2,117,294	25,188	253	16,722	6,039	772,557
Investment Income:						
Investment earnings	1,868,454	15,481	817	11,083	3,167	661,726
Less investment expenses	(399,830)	(3,305)	(176)	(2,372)	(674)	(141,149)
Net investment income	1,468,624	12,176	641	8,711	2,493	520,577
Other additions:						
Fees, licenses and fines	—	—	—	—	—	3,218
Interest earnings on loans	—	—	—	—	—	—
Miscellaneous	394	—	—	5	—	68
Total other additions	394	—	—	5	—	3,286
Total additions	3,586,312	37,364	894	25,438	8,532	1,296,420
Deductions						
Claims and benefits	4,075,030	38,204	2,384	26,463	7,958	1,117,822
Medical insurance premiums	—	—	—	—	—	—
Refund of contributions	109,380	160	88	450	—	54,756
Administrative expenses	10,646	30	17	1,622	75	4,086
Other deductions	1	—	—	—	—	—
Total deductions	4,195,057	38,394	2,489	28,535	8,033	1,176,664
Change in net position	(608,745)	(1,030)	(1,595)	(3,097)	499	119,756
Net position — July 1	65,615,775	539,564	30,051	389,405	110,030	22,927,586
Net position — June 30	$ 65,007,030	$ 538,534	$ 28,456	$ 386,308	$ 110,529	$ 23,047,342

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	Totals
$ 172,662	$ 1,029	$ 22,380	$ 854,383	$ 63,267	$ 894	$ 802	$ 2,806,048
295,812	70,651	—	—	—	—	—	1,593,946
—	—	23,798	—	—	—	—	43,737
468,474	71,680	46,178	854,383	63,267	894	802	4,443,731
454,062	61,552	10,035	25,015	9,719	1	1,125	3,122,237
—	—	(94)	(5,256)	(93)	—	(11)	(552,960)
454,062	61,552	9,941	19,759	9,626	1	1,114	2,569,277
—	—	—	—	—	—	—	3,218
11,580	728	—	—	—	—	—	12,308
1,735	239	—	—	—	—	—	2,441
13,315	967	—	—	—	—	—	17,967
935,851	134,199	56,119	874,142	72,893	895	1,916	7,030,975
399,783	61,580	48,719	—	78,977	832	1,715	5,859,467
—	—	10,588	825,337	—	—	—	835,925
—	—	—	—	—	—	—	164,834
2,063	273	375	344	872	90	16	20,509
—	—	6,119	8,531	—	—	—	14,651
401,846	61,853	65,801	834,212	79,849	922	1,731	6,895,386
534,005	72,346	(9,682)	39,930	(6,956)	(27)	185	135,589
7,594,627	1,093,561	406,946	1,010,082	436,425	939	46,809	100,201,800
$ 8,128,632	$ 1,165,907	$ 397,264	$ 1,050,012	$ 429,469	$ 912	$ 46,994	$ 100,337,389

NOTE 17: PLEDGED REVENUES

Primary Government

Governmental Activities

The State has pledged future federal transportation revenues to repay $598.165 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2015. These bonds were issued in October 2007, August 2009, January 2012 and May 2015. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds of governmental activities are expected to require less than 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 $792.532 million, payable through 2030. For the current fiscal year, principal and interest paid and total federal transportation revenues were $80.614 million and $1.065 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 $2.245 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 $81.632 million and $53.063 million respectively.

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):

		Future Revenues Pledged		Current Year			
Purpose	Revenue Source	(1) Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments	Final Maturity Date	Payable as of 6/30/2015
Revenue Bonds							
Housing and Dining	Housing and Dining Revenues	$ 90,402	4.07% - 75.00%	$ 16,739	$ 4,254	2035	$ 58,005
Utilities	Utilities Revenues	60,837	6.00% - 14.80%	29,518	8,746	2022	60,645
Health Care Facilities	Patient Service Revenues	301,621	100.00% - 211.00%	2,810	11,977	2034	131,135
Other	Various	1,048	107.00%	244	41	2019	905
Total		$ 453,908		$ 49,311	$ 25,018		$ 250,690
Certificates of Participation							
Student Housing System	Housing Revenues	$ 34,872	33.00% - 112.00%	$ 2,114	$ 1,837	2037	$ 23,470

(1) The Future Revenues Pledged amount is equivalent to the total principal and interest remaining to be paid on the associated bonds.

NOTE 18: COMPONENT UNITS — FINANCIAL INFORMATION

Financial statements as of and for the fiscal year ended June 30, 2015 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	$ 1,529,363	$ 283,176	$ 1,024,120	$ 114,814	$ 2,951,473
Investments	2,648,911	77,183	—	956,440	3,682,534
Receivables, net	1,232,561	93,378	50,828	79,699	1,456,466
Due from component units	4,487	—	—	1,185	5,672
Due from primary government	148,057	—	—	82,100	230,157
Inventories	115,771	19,857	—	730	136,358
Prepaid items	99,254	6,227	—	3,394	108,875
Notes receivable, net	175,466	674	—	3,052,569	3,228,709
Investment in joint venture	127,796	—	—	—	127,796
Restricted/designated cash and cash equivalents	1,065,232	97,732	—	838,714	2,001,678
Restricted investments	4,562,940	232,387	—	1,780,450	6,575,777
Restricted due from primary government	339	15,728	—	—	16,067
Restricted due from component units	—	1,173	—	—	1,173
Capital assets- nondepreciable	1,433,578	383,428	—	109,153	1,926,159
Capital assets- depreciable, net	11,327,254	2,405,585	32	536,891	14,269,762
Total Assets	24,471,009	3,616,528	1,074,980	7,556,139	36,718,656
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives	130,378	—	—	4,450	134,828
Deferred loss on refunding	32,061	—	—	—	32,061
Deferred outflows for pensions	231,662	87,106	268	2,254	321,290
Other deferred outflows	—	3,512	—	—	3,512
Total Deferred Outflows of Resources	394,101	90,618	268	6,704	491,691
Liabilities					
Accounts payable and accrued liabilities	1,035,884	72,717	26,703	106,064	1,241,368
Medical claims payable	—	—	285,033	—	285,033
Interest payable	44,559	45	—	17,830	62,434
Short- term debt	73,212	—	—	—	73,212
Due to component units	—	—	—	6,845	6,845
Due to primary government	478	24	7	20	529
Unearned revenue	178,848	18,871	21,452	44,040	263,211
Advance from primary government	—	—	—	4,066	4,066
Obligations under reverse repurchase agreements	12,376	—	—	—	12,376
Deposits payable	17,251	—	—	3,552	20,803
Funds held for others	907,325	8,626	—	1,689,576	2,605,527
Hedging derivatives liability	130,378	—	—	4,450	134,828
Long- term liabilities:					
Due within one year	321,706	15,312	43	279,795	616,856
Due in more than one year	5,353,393	194,228	611	2,486,799	8,035,031
Total Liabilities	8,075,410	309,823	333,849	4,643,037	13,362,119
Deferred Inflows of Resources					
Deferred state aid	—	—	—	121,344	121,344
Deferred inflows for pensions	639,725	250,107	949	6,504	897,285
Other deferred inflows	1,039	549	—	—	1,588
Total Deferred Inflows of Resources	640,764	250,656	949	127,848	1,020,217
Net Position					
Net investment in capital assets	8,177,553	2,732,139	32	524,326	11,434,050
Restricted for:					
Nonexpendable:					
Higher education	2,298,231	188,406	—	—	2,486,637
Expendable:					
Higher education	3,170,439	227,461	—	476,709	3,874,609
Health and human services	—	—	—	37	37
Economic development	—	—	—	777,710	777,710
Unrestricted	2,502,713	(1,339)	740,418	1,013,176	4,254,968
Total Net Position	$ 16,148,936	$ 3,146,667	$ 740,450	$ 2,791,958	$ 22,828,011

NOTES TO THE FINANCIAL STATEMENTS

Statement of Activities

		University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Total expenses		$ 10,974,386	$ 2,184,933	$ 3,051,518	$ 855,310	$ 17,066,147
Program revenues:						
Charges for services	[1]	7,370,709	307,812	2,982,001	463,498	11,124,020
Operating grants and contributions:						
State aid - program		—	—	—	236,123	236,123
Other operating grants and contributions		1,509,483	876,847	73,246	155,805	2,615,381
Capital grants and contributions:						
State capital aid		29,301	47,994	—	74	77,369
Other capital grants and contributions		66,252	168,016	—	3,818	238,086
Net program (expense) revenue		(1,998,641)	(784,264)	3,729	4,008	(2,775,168)
Non-tax general revenues:						
State aid - general		2,617,669	952,664	—	51,207	3,621,540
Miscellaneous		801	5	—	1,644	2,450
Total non-tax general revenues		2,618,470	952,669	—	52,851	3,623,990
Contributions to endowments		84,867	8,010	—	—	92,877
Change in net position		704,696	176,415	3,729	56,859	941,699
Net position — July 1, as restated		15,444,240	2,970,252	736,721	2,735,099	21,886,312
Net position — June 30		$ 16,148,936	$ 3,146,667	$ 740,450	$ 2,791,958	$ 22,828,011

[1] The State Health Plan's charges for services include $1.21 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)	(296,955)	(81,920)	380,977	(2,102)	—

Intra-Entity Balances — Between Primary Government and Component Units

	Due From/Restricted Due From Component Units			Due From/Restricted Due From Primary Government			
	General Fund	Other Funds	Total	University of North Carolina System	Community Colleges	Other Component Units	Total
Due To Component Units:							
General Fund				$ 148,057	$ —	$ 82,100	$ 230,157
Other Governmental Funds				339	15,728	—	16,067
Due To Primary Government:							
University of North Carolina System	$ 8	$ 470	$ 478				
Community Colleges	—	24	24				
State Health Plan	—	7	7				
Other Component Units	—	20	20				
Total	$ 8	$ 521	$ 529	$ 148,396	$ 15,728	$ 82,100	$ 246,224

NOTE 19: RELATED ORGANIZATIONS

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate private nonprofit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a board of directors comprised of two members appointed by the Governor; up to four members appointed by the president of the University of North Carolina System, a component unit of the State; up to seven members elected by the majority vote of persons then constituting the MCNC Board. Any director may be removed from office by the MCNC Board with cause.

North Carolina Agricultural Finance Authority

The North Carolina Agricultural Finance Authority (Authority) is a legally separate authority created to administer the financing of loans to farmers and agribusiness at reasonable terms and interest rates. The Authority is governed by a 10-member board comprised of three members appointed by the Governor; six members appointed by the General Assembly; and serving ex officio, the Commissioner of Agriculture or the Commissioner’s designee.

NOTE 20: RELATED PARTY TRANSACTIONS

Primary Government

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

General Statute 135-96 established the Supplemental Retirement Board of Trustees (Board) to administer both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan. The Plan document for each Plan designates that the general administration and responsibility for carrying out the provisions of the Plan, as directed by the Board, shall be placed with the Retirement Systems Division of the Department of State Treasurer as Primary Administrator. The Board and Primary Administrator have entered into an agreement with Prudential Financial, Inc. to perform recordkeeping, administration and investment management services for both Plans.

The Plans contract Galliard Capital Management, Inc. (Galliard), a subsidiary of Wells Fargo Bank N.A., to act as a fiduciary investment advisor for the North Carolina Stable Value Fund. Galliard has the discretion over the benefit responsive contracts and the underlying investment managers. Galliard also has the authority to invest in securities subject to guidelines agreed upon by the Board. As an advisor, Galliard is primarily responsible for ensuring that negotiated investment contracts are adhered to by the insurance companies, bank or other eligible providers who have entered into such contracts. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms. The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances.

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

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, 2015, this support totaled $81.17 million for the UNC System and $2.55 million for community colleges.

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, 2015, was $7.2 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, 2015, was $2.9 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

The North Carolina Department of Transportation (Department) is authorized by General Statute 136-18(39) and General Statute 136-18(39a) to enter into private partnership agreements to finance by tolls and other financing methods the cost of constructing transportation infrastructures. Such agreement was entered into on June 26, 2014 with I-77 Mobility Partners LLC to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. The Department, as a conduit issuer, issued $100 million of senior private activity bonds (PABs) on behalf of I-77 Mobility Partners LLC and will provide additional direct funds of $94.7 million. The PABs are not an obligation of the Department or the State. The Department has a contingent obligation up to a maximum of $75 million over the life of the project in the event of certain revenue shortfalls.

B. Litigation

***Hoke County, et al. v. State of North Carolina and State Board of Education* — Right to a Sound Basic Education (formerly Leandro).** In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the state Constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties, but remanded the case for trial on the claim for relief based on the Court's conclusion that the Constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002, the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now 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 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 successfully appealed to the North Carolina Court of Appeals, and the case is now back in superior court.

***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 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 was 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, 2015, the State is unable to estimate what liabilities may result from such audits.

For the fiscal years 2011-2013, the State received more than $34.8 million in unallowable performance bonus payments under the Children's Health Insurance Program Reauthorization Act. The overpayments were the result of the overstatement of the enrollment numbers in their request. Once a final determination of the liability is made, the amount will be paid to Centers for Medicaid Services (CMS).

D. Highway Construction

The State has placed on deposit in court $133.63 million for a potential liability to property owners for contested rights-of-way acquisition costs in condemnation proceedings. The State may also be liable for an additional $48.23 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of $48.62 million. These costs have not been included in project-to-date costs.

E. Construction and Other Commitments

At June 30, 2015, the State had commitments of $3.997 billion for construction of highway infrastructure. Of this amount, $2.981 billion relates to the Highway Fund, $27 million relates to the N.C. Turnpike Authority, and $989 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled $457.43 million (including $371.43 million for the Department of Environment and Natural Resources and $56.53 million for the Division of Mental Health within the Department of Health and Human Services).

At June 30, 2015, the University of North Carolina System (component unit) had outstanding construction commitments of $460.74 million (including $145.43 million for UNC Healthcare System, $70.88 million for North Carolina Agricultural and Technical State University, $66.81 million for University of North Carolina at Charlotte, $57.84 million for University of North Carolina at Chapel Hill, and $45.8 million for University of North Carolina at Greensboro).

At June 30, 2015, community colleges (component units) had outstanding construction commitments of $145.02 million (including $59.55 million for Wake Technical Community College, $41.79 million for Cape Fear Community College, and $15.49 million for Pitt Community College).

The 911 Board (Board), part of the Office of Information Technology Services, sets aside a portion of its fund balance annually to support local Public Safety Answering Points (PSAPs). The PSAPs apply to the Board for the funds with improvement project proposals that the Board evaluates and either approves or denies. At June 30, 2015, the 911 Fund (special revenue fund) had outstanding commitments on these cost-reimbursement grants and contracts to the PSAPs totaling $20.43 million.

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, 2015, the State Treasurer had $3.21 billion in unfunded commitments in the Real Estate Investment portfolio which included 19.49 million euro and 64.72 million pounds sterling converted to U.S. dollar equivalent. In the Alternative Investment portfolio, the State Treasurer had unfunded commitments of $2.68 billion which included 143.02 million euro and 37.41 million pounds sterling converted to the U.S. dollar equivalent. At June 30, 2015, in the Credit Investment portfolio, the State Treasurer had unfunded commitments of $589.96 million which included 52.99 million euro converted to the U.S. dollar equivalent. At June 30, 2015, the State Treasurer also had unfunded commitments in the Inflation Protection Investment portfolio of $2.73 billion. In addition, the Escheat Investment Account had unfunded commitments of $4.25 million at June 30, 2015. 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, 2015, the UNC Investment Fund had approximately $866.16 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 $2.71 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.

In House Bill 97 [Session Law 2015-241], the North Carolina Housing Finance Agency, in consultation with the Department of Health and Human Services (DHHS), was authorized to administer the Community Living Housing Fund in order to provide permanent community-based housing in integrated settings appropriate for individuals with severe mental illness and severe and persistent mental illness. DHHS transferred $2.89 million dollars to the Community Living Housing Fund.

NOTE 22: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2015, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 68, *Accounting and Financial Reporting for Pensions–an Amendment of GASB Statement No. 27*,
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, and
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date–an Amendment of GASB Statement No. 68*.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability (or asset) and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the pension plan's fiduciary net pension (mostly investments reported at fair value). The Statement requires that most changes in the net pension liability be included in pension expense in the period of change. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources and included in pension expense over the current and future periods. Statement No. 68 requires single-employers and cost-sharing employers to record a liability, expense, as well as deferred outflows of resources and deferred inflows of resources. Cost-sharing employers are required to record amounts equal to their proportionate share of the collective net pension liability, collective pension expense, and collective deferred outflows of resources and deferred inflows of resources related to pensions for the cost-sharing plan. In specific circumstances called special funding situations, the Statement requires governments that are nonemployer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers' net pension liability, pension expense, as well as deferred outflows of resources and deferred inflows of resources related to pensions. The existing standards for governments that provide defined contribution pensions are largely carried forward in Statement No. 68. These governments recognize pension expense equal to the amount of contributions or credits to employees' accounts, net of forfeited amounts. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

Statement No. 71 modifies the transition guidance provided in Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates to employer contributions made subsequent to the measurement date of the beginning net pension liability, but before the start of the government's fiscal year. Specifically, the revised guidance clarifies that such amounts would always be treated as a deferred outflow of resources, regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. Consequently, in the government-wide and proprietary fund financial statements, net position was restated to record the beginning balance of the net pension liability and the deferred outflow of resources for employer contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions were not reported since it was not practical to determine such amounts.

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Statement No. 69 did not result in any significant changes to the financial statements.

NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the "GASB 68 Implementation" column are due to the State's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27,* as discussed in Note 22. The adjustments in the "Reclassifications" column result from the reclassification of an internal service fund to the General Fund due to a management reevaluation of fund type. The amounts in the "Other Adjustments" column are primarily due to the correction of errors related to prior periods.

	July 1, 2014 Fund Equity as Previously Reported	GASB 68 Implementation	Reclassifications	Other Adjustments	July 1, 2014 Fund Equity as Restated
Primary Government					
Major Governmental Funds:					
General Fund	$ 1,543,536	$ —	$ 9,751	$ 538	$ 1,553,825
Highway Fund	214,872	—	—	6,695	221,567
Highway Trust Fund	878,122	—	—	(6,695)	871,427
Other Governmental Funds:					
Special Revenue Funds	1,015,336	—	—	—	1,015,336
Capital Projects Funds	471,202	—	—	—	471,202
Permanent Funds	119,234	—	—	—	119,234
Total Governmental Funds	4,242,302	—	9,751	538	4,252,591
Internal Service Funds	235,139	(12,767)	(9,751)	—	212,621
Government-wide adjustments:					
Equity interest in component unit	146,968	—	—	—	146,968
Capital assets	44,344,369	—	—	(57,941)	44,286,428
Deferred loss on refunding	120,624	—	—	—	120,624
Deferred outflows for pensions	—	316,298	—	—	316,298
Unavailable revenue	184,095	—	—	(1,628)	182,467
Long-term liabilities	(8,345,192)	(1,519,860)	—	(45)	(9,865,097)
Accrued interest payable	(54,735)	—	—	—	(54,735)
Pension assets	6,176	(1,719)	—	—	4,457
Total Government-wide adjustments	36,402,305	(1,205,281)	—	(59,614)	35,137,410
Total Governmental Activities	$ 40,879,746	$ (1,218,048)	$ —	$ (59,076)	$ 39,602,622
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund	(370,523)	—	—	—	(370,523)
EPA Revolving Loan Fund	1,404,255	(1,424)	—	—	1,402,831
N.C. Turnpike Authority	276,770	(280)	—	—	276,490
Other enterprise funds	159,734	(17,816)	—	25,905	167,823
Total Business-type Activities - Enterprise Funds	$ 1,470,236	$ (19,520)	$ —	$ 25,905	$ 1,476,621
Component Units					
University of North Carolina System	$ 16,371,093	$ (864,901)	$ —	$ (61,952)	$ 15,444,240
Community Colleges	3,252,780	(279,437)	—	(3,091)	2,970,252
State Health Plan	737,821	(1,100)	—	—	736,721
Other component units	2,744,967	(7,297)	—	(2,571)	2,735,099
Total Component Units	$ 23,106,661	$ (1,152,735)	$ —	$ (67,614)	$ 21,886,312

NOTE 24: SUBSEQUENT EVENTS

Primary Government

Sale of Dorothea Dix Land

On July 24, 2015, the Dorothea Dix property sale was completed between the State of North Carolina and the City of Raleigh for $52 million. The land proceeds were deposited in the General Fund. The funds will be used to increase the availability of short-term behavioral health patient services around the State and to increase inpatient bed capacity for short-term care of individuals experiencing an acute mental health, substance abuse, or development disability crisis. The North Carolina Department of Health and Human Services (DHHS) will lease from the city the office buildings on the 308 acre property that are still being utilized by the DHHS staff through a $1-a-year lease back to the State for up to 25 years.

Component Units

University of North Carolina System – University of North Carolina at Chapel Hill – Commercial Paper

On November 19, 2015, the Board of Governors of the University of North Carolina, on behalf of the University of North Carolina at Chapel Hill, issued $100 million through the commercial paper financial program at an interest rate of 0.06%. The proceeds funded a redemption of the entire series of General Revenue 2012A Bonds on November 20, 2015.

University of North Carolina System – North Carolina State University – Variable Rate General Revenue Refunding Bonds

On November 18, 2015, North Carolina State University issued $64.46 million in variable rate General Revenue Refunding Bonds, Series 2015 with a variable interest rate of 68% of one-month London Interbank Offered Rate (LIBOR) plus 0.49%. The bonds will mature October 1, 2028 with interest payable monthly. The bonds were issued for a current refunding of $64.46 million of outstanding variable rate General Revenue Bonds, Series 2008A with a variable interest rate of Securities Industry and Financial Markets Association (SIFMA). The refunding was undertaken to reduce rollover risk by eliminating the standby credit provider with a commitment by the purchaser for the remainder of the bond term.

University of North Carolina System – East Carolina University – General Revenue Bonds and Taxable General Revenue Bonds

On July 23, 2015, East Carolina University sold $66.25 million in Series 2015A General Revenue Bonds and $5.42 million in Series 2015B taxable General Revenue Bonds. These bonds will be dated July 23, 2015 and will bear interest from that date. Interest will be payable semiannually on each April 1 and October 1, and commenced on October 1, 2015. The bonds mature from October 1, 2015 to October 1, 2044 and were issued at coupon rates ranging from 3% to 5%. The Series 2015 General Revenue bonds was issued to advance refund $38.73 million of outstanding Series 2006A and Series 2009A bonds with an average interest rate of 5.01%; to fund the construction of the West Facility Student Union; and to pay the costs of the bond issuance. The net proceeds of the refunding bonds along with prior funds on hand of $601 thousand 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 $3.22 million over the next 20 years and resulted in an economic gain of $1.81 million.

University of North Carolina System – North Carolina Agricultural and Technical State University – General Revenue Bonds and Taxable General Revenue Bonds

On November 24, 2015, the North Carolina Agricultural and Technical State University sold $76.98 million in Series 2015A General Revenue Bonds (Series 2015A) and $10.74 million taxable General Revenue Bonds, Series 2015B (Series 2015B). These bonds are dated November 24, 2015 and bear interest from that date. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing April 1, 2016. The Series 2015A bonds include both serial and term bonds. The serial bonds will mature from October 1, 2017 to October 1, 2035 and were issued at coupon rates ranging from 2% to 5%. The term bonds will mature on October 1, 2040 and October 1, 2045 and were issued at coupon rates of 5% and 4%, respectively. The Series

2015B bonds will mature from October 1, 2016 to October 1, 2022 and were issued at coupon rates ranging from 0.8% to 3.17%. The bonds were issued to fund the construction of a new student center facility, refund $5 million in bond anticipation notes, refund $4.87 million of the University of North Carolina System Pool Revenue Bonds, Series 2006B, and pay the costs of bond issuance.

University of North Carolina System – Western Carolina University – General Revenue Bonds and Revenue Refunding Bonds and Taxable General Revenue Refunding Bonds

On November 19, 2015, the Western Carolina University sold $36.97 million in Series 2015A General Revenue and Revenue Refunding Bonds (Series 2015A) and $7.43 million in Series 2015B taxable General Revenue Refunding Bonds (Series 2015B). These bonds are dated November 19, 2015 and bear interest from that date. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing April 1, 2016. The Series 2015A bonds include both serial and term bonds. The serial bonds will mature from October 1, 2016 to October 1, 2031 and were issued at coupon rates ranging from 3% to 5%. The term bonds will mature on October 1, 2033, October 1, 2039 and October 1, 2045 and were issued at coupon rates of 3.38%, 4% and 5%, respectively. The Series 2015B bonds will mature from October 1, 2016 to October 1, 2026 and were issued at coupon rates ranging from 0.8% to 3.6%.

The bonds were issued to finance the renovation, construction, equipping and furnishing of the Brown Building, which will house food services, dining, and residential living administrative offices; current refund $2.44 million of outstanding UNC System Pool Revenue Bonds, Series 2003A with an average interest rate of 4.75%; advance refund $7.05 million of outstanding UNC System taxable Pool Revenue Bonds, Series 2006A with an average interest rate of 4.92%; advance refund $15.96 million of outstanding UNC System Pool Revenue Bonds, Series 2008A with an average interest rate of 4.85%; and pay certain costs incurred with the issuance of the bonds. The net proceeds of the advance 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 $2.65 million over the next 8.33 years and resulted in an economic gain of $2.06 million.

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Required Supplementary Information

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REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLANS

Required supplementary information for pension plans provides information on the sources of changes in net pension liabilities, information about the components of net pension liabilities, employer contributions, and investment returns.

The Required Supplementary Information for Pension Plans includes the following schedules:

Schedule of Changes in the Net Pension Liability and Related Ratios: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Changes in the Net Pension Liability and Related Ratios: Single-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Single-Employer, Defined Benefit Pension Plans

Schedule of Investment Returns: All Defined Benefit Pension Trust Funds

Notes to Required Supplementary Information: Schedule of Employer Contributions

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

Last Two Fiscal Years

(Dollars in Thousands)

	2015	2014
Teachers' and State Employees'		
Total pension liability		
Service Cost	$ 1,562,846	$ 1,556,027
Interest	4,803,766	4,648,995
Changes of benefit terms	-	355,224
Differences between expected and actual experience	(278,170)	(345,392)
Benefit payments, including refunds of member contributions	(4,184,410)	(3,989,397)
Net change in total pension liability	1,904,032	2,225,457
Total pension liability - beginning	66,788,196	64,562,739
Total pension liability - ending (a)	$ 68,692,228	$ 66,788,196
Plan fiduciary net position		
Contributions-employer	$ 1,262,988	$ 1,177,341
Contributions-member	854,306	825,548
Net investment income	1,468,624	9,121,005
Benefit payments, including refunds of member contributions	(4,184,410)	(3,989,397)
Administrative expense	(10,646)	(10,762)
Other	393	320
Net change in plan fiduciary net position	(608,745)	7,124,055
Plan fiduciary net position - beginning	65,615,775	58,491,720
Plan fiduciary net position - ending (b)	$ 65,007,030	$ 65,615,775
TSERS's net pension liability - ending (a) - (b)	$ 3,685,198	$ 1,172,421
Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.24%
Covered-employee payroll	$ 13,803,148	$ 13,548,227
Net pension liability as a percentage of covered-employee payroll	26.70%	8.65%
Local Governmental Employees'		
Total pension liability		
Service Cost	$ 670,936	$ 654,735
Interest	1,628,373	1,555,958
Changes of benefit terms	65,914	(7,790)
Differences between expected and actual experience	(72,177)	(80,590)
Benefit payments, including refunds of member contributions	(1,172,578)	(1,106,799)
Net change in total pension liability	1,120,468	1,015,514
Total pension liability - beginning	22,375,668	21,360,154
Total pension liability - ending (a)	$ 23,496,136	$ 22,375,668
Plan fiduciary net position		
Contributions-employer	$ 408,694	$ 413,175
Contributions-member	363,863	346,961
Net investment income	520,578	3,161,964
Benefit payments, including refunds of member contributions	(1,172,578)	(1,106,799)
Administrative expense	(4,086)	(3,974)
Other	3,285	3,297
Net change in plan fiduciary net position	119,756	2,814,624
Plan fiduciary net position - beginning	22,927,586	20,112,962
Plan fiduciary net position - ending (b)	$ 23,047,342	$ 22,927,586
LGERS's net pension liability (asset) - ending (a) - (b)	$ 448,794	$ (551,918)
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.47%
Covered-employee payroll	$ 5,650,694	$ 5,553,383
Net pension liability (asset) as a percentage of covered-employee payroll	7.94%	(9.94%)

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

Last Two Fiscal Years

(Dollars in Thousands)

	2015	2014
Firefighters' and Rescue Squad Workers'		
Total pension liability		
Service Cost	$ 5,884	$ 5,710
Interest	29,671	29,394
Changes of benefit terms	-	8,770
Differences between expected and actual experience	(2,799)	2,714
Changes of assumptions	-	(16,688)
Benefit payments, including refunds of member contributions	(26,912)	(25,614)
Net change in total pension liability	5,844	4,286
Total pension liability - beginning	416,823	412,537
Total pension liability - ending (a)	$ 422,667	$ 416,823
Plan fiduciary net position		
Contributions-member	$ 2,822	$ 2,781
Contributions-nonemployer	13,900	14,627
Net investment income	8,711	53,842
Benefit payments, including refunds of member contributions	(26,912)	(25,614)
Administrative expense	(1,622)	(1,045)
Other	4	2
Net change in plan fiduciary net position	(3,097)	44,593
Plan fiduciary net position - beginning	389,405	344,812
Plan fiduciary net position - ending (b)	$ 386,308	$ 389,405
FRSWPF's's net pension liability - ending (a) - (b)	$ 36,359	$ 27,418
Plan fiduciary net position as a percentage of the total pension liability	91.40%	93.42%
Covered-employee payroll	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A

	2015	2014
Registers of Deeds'		
Total pension liability		
Service Cost	$ 578	$ 563
Interest	1,372	1,342
Differences between expected and acutual experience	(558)	302
Benefit payments, including refunds of member contributions	(1,715)	(1,666)
Net change in total pension liability	(323)	541
Total pension liability - beginning	24,143	23,602
Total pension liability - ending (a)	$ 23,820	$ 24,143
Plan fiduciary net position		
Contributions-employer	$ 802	$ 817
Net investment income	1,114	2,714
Benefit payments, including refunds of member contributions	(1,715)	(1,666)
Administrative expense	(16)	(18)
Net change in plan fiduciary net position	185	1,847
Plan fiduciary net position - beginning	46,809	44,962
Plan fiduciary net position - ending (b)	$ 46,994	$ 46,809
RODSPF's net pension asset - ending (a) - (b)	$ (23,174)	$ (22,666)
Plan fiduciary net position as a percentage of the total pension liability	197.29%	193.88%
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 CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS
Last Two Fiscal Years

(Dollars in Thousands)

	2015	2014
Consolidated		
Judical		
Total pension liability		
Service Cost	$ 16,812	$ 16,637
Interest	40,846	39,405
Changes of benefit terms	-	3,031
Differences between expected and actual experience	(2,289)	(2,484)
Benefit payments, including refunds of member contributions	(38,364)	(35,428)
Net change in total pension liability	17,005	21,161
Total pension liability - beginning	565,761	544,600
Total pension liability - ending (a)	$ 582,766	$ 565,761
Plan fiduciary net position		
Contributions-employer	$ 18,949	$ 21,390
Contributions-member	6,238	5,598
Net investment income	12,176	74,294
Benefit payments, including refunds of member contributions	(38,364)	(35,428)
Administrative expense	(30)	(48)
Other	1	3
Net change in plan fiduciary net position	(1,030)	65,809
Plan fiduciary net position - beginning	539,564	473,755
Plan fiduciary net position - ending (b)	$ 538,534	$ 539,564
CJRS's net pension liability - ending (a) - (b)	$ 44,232	$ 26,197
Plan fiduciary net position as a percentage of the total pension liability	92.41%	95.37%
Covered-employee payroll	$ 69,638	$ 76,367
Net pension liability as a percentage of covered-employee payroll	63.52%	34.30%
Legislative		
Total pension liability		
Service Cost	$ 844	$ 747
Interest	1,742	1,678
Changes of benefit terms	-	146
Differences between expected and acutual experience	(579)	762
Benefit payments, including refunds of member contributions	(2,473)	(2,614)
Net change in total pension liability	(466)	719
Total pension liability - beginning	24,418	23,699
Total pension liability - ending (a)	$ 23,952	$ 24,418
Plan fiduciary net position		
Contributions-member	$ 253	$ 253
Net investment income	642	4,293
Benefit payments, including refunds of member contributions	(2,473)	(2,614)
Administrative expense	(17)	(37)
Net change in plan fiduciary net position	(1,595)	1,895
Plan fiduciary net position - beginning	30,051	28,156
Plan fiduciary net position - ending (b)	$ 28,456	$ 30,051
LRS's net pension asset - ending (a) - (b)	$ (4,504)	$ (5,633)
Plan fiduciary net position as a percentage of the total pension liability	118.80%	123.07%
Covered-employee payroll	$ 3,611	$ 3,608
Net pension asset as a percentage of covered-employee payroll	(124.73%)	(156.13%)

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

Last Two Fiscal Years

(Dollars in Thousands)

	2015	2014
North Carolina National Guard		
Total pension liability		
Service Cost	$ 550	$ 512
Interest	9,916	9,330
Changes of benefit terms	8,734	5,752
Differences between expected and actual experience	(198)	192
Benefit payments, including refunds of member contributions	(7,958)	(7,502)
Net change in total pension liability	11,044	8,284
Total pension liability - beginning	140,206	131,922
Total pension liability - ending (a)	$ 151,250	$ 140,206
Plan fiduciary net position		
Contributions-nonemployer	$ 6,039	$ 7,007
Net investment income	2,493	14,942
Benefit payments, including refunds of member contributions	(7,958)	(7,502)
Administrative expense	(75)	(73)
Other	-	1
Net change in plan fiduciary net position	499	14,375
Plan fiduciary net position - beginning	110,030	95,655
Plan fiduciary net position - ending (b)	$ 110,529	$ 110,030
NGPF's net pension liability - ending (a) - (b)	$ 40,721	$ 30,176
Plan fiduciary net position as a percentage of the total pension liability	73.08%	78.48%
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 AND NONEMPLOYER CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	2015	2014	2013	2012	2011
Actuarially determined contribution	$ 1,262,988	$ 1,177,341	$ 1,078,783	$ 1,015,762	$ 926,429
Contractually required contribution	1,262,988	1,177,341	1,120,482	1,015,762	680,670
Contributions in relation to the actuarially determined contribution	1,262,988	1,177,341	1,120,482	1,015,762	680,670
Contribution deficiency (excess)	$ -	$ -	$ (41,699)	$ -	$ 245,759
Covered-employee payroll	$ 13,803,148	$ 13,548,227	$ 13,451,164	$ 13,652,715	$ 13,806,691
Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%	4.93%
Local Governmental Employees'					
Actuarially determined contribution	$ 402,429	$ 397,462	$ 370,152	$ 376,340	$ 342,910
Contractually required contribution	408,694	413,175	383,889	389,399	361,998
Contributions in relation to the actuarially determined contribution	408,694	413,175	383,889	389,399	361,998
Contribution excess	$ (6,265)	$ (15,713)	$ (13,737)	$ (13,059)	$ (19,088)
Covered-employee payroll	$ 5,650,694	$ 5,553,383	$ 5,421,364	$ 5,402,147	$ 5,329,651
Contributions as a percentage of covered-employee payroll	7.23%	7.44%	7.08%	7.21%	6.79%
Firefighters' and Rescue Squad Workers' *					
Actuarially determined contribution	$ 13,900	$ 14,620	$ 14,074	$ 14,389	$ 12,243
Contractually required contribution	13,900	14,627	15,447	14,398	10,110
Contributions in relation to the actuarially determined contribution	13,900	14,627	15,447	14,398	10,110
Contribution deficiency (excess)	$ -	$ (7)	$ (1,373)	$ (9)	$ 2,133
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'					
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -
Contractually required contribution	802	817	937	843	772
Contributions in relation to the actuarially determined contribution	802	817	937	843	772
Contribution excess	$ (802)	$ (817)	$ (937)	$ (843)	$ (772)
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

* Nonemployer contributing entity

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

2010	2009	2008	2007	2006
$ 492,779	$ 492,689	$ 429,064	$ 341,476	$ 315,225
492,779	492,689	468,669	371,476	315,225
492,779	492,689	468,669	371,476	315,225
$ -	$ -	$ (39,605)	$ (30,000)	$ -
$ 13,803,324	$ 14,663,363	$ 13,976,026	$ 14,592,991	$ 13,471,154
3.57%	3.36%	3.35%	2.55%	2.34%
$ 230,121	$ 257,982	$ 241,533	$ 225,950	$ 209,453
273,337	271,363	256,612	241,094	229,399
273,337	271,363	256,612	241,094	229,399
$ (43,216)	$ (13,381)	$ (15,079)	$ (15,144)	$ (19,946)
$ 5,320,927	$ 5,284,862	$ 4,948,042	$ 4,693,423	$ 4,484,358
5.14%	5.13%	5.19%	5.14%	5.12%
$ 10,074	$ 9,757	$ 8,734	$ 8,440	$ 7,926
10,080	9,762	8,734	8,440	7,926
10,080	9,762	8,734	8,440	7,926
$ (6)	$ (5)	$ -	$ -	$ -
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
$ -	$ -	$ -	$ -	$ -
736	754	926	3,150	3,219
736	754	926	3,150	3,219
$ (736)	$ (754)	$ (926)	$ (3,150)	$ (3,219)
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

Consolidated Judicial	**2015**	**2014**	**2013**	**2012**	**2011**
Actuarially determined contribution	$ 18,949	$ 21,390	$ 18,992	$ 18,956	$ 13,322
Contractually required contribution	18,949	21,390	18,992	18,956	10,457
Contributions in relation to the actuarially determined contribution	18,949	21,390	18,992	18,956	10,457
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ 2,865
Covered-employee payroll	$ 69,638	$ 76,367	$ 71,533	$ 75,673	$ 69,206
Contributions as a percentage of covered-employee payroll	27.21%	28.01%	26.55%	25.05%	15.11%
Legislative					
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -
Contractually required contribution	-	-	-	-	-
Contributions in relation to the actuarially determined contribution	-	-	-	-	-
Contribution excess	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 3,611	$ 3,608	$ 3,600	$ 3,314	$ 4,029
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	$ 6,039	$ 5,349	$ 5,667	$ 6,075	$ 5,719
Contractually required contribution	6,039	7,007	7,007	7,007	7,007
Contributions in relation to the actuarially determined contribution	6,039	7,007	7,007	7,007	7,007
Contribution deficiency (excess)	$ -	$ (1,658)	$ (1,340)	$ (932)	$ (1,288)
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

* Nonemployer contributing entity

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

2010	2009	2008	2007	2006
$ 10,740	$ 10,017	$ 8,214	$ 7,300	$ 6,695
10,740	10,603	40,844	8,090	6,989
10,740	10,603	10,844	8,090	6,989
$ -	$ (586)	$ (2,630)	$ (790)	$ (294)
$ 71,079	$ 80,265	$ 64,678	$ 64,257	$ 55,512
15.11%	13.21%	16.77%	12.59%	12.59%

$ -	$ -	$ -	$ -	$ -
-	-	209	-	-
-	-	209	-	-
$ -	$ -	$ (209)	$ -	$ -
$ 3,657	$ 3,686	$ 3,614	$ 3,714	$ 3,657
0.00%	0.00%	5.78%	0.00%	0.00%

$ 5,682	$ 6,248	$ 6,232	$ 7,324	$ 5,944
7,008	5,892	7,007	7,007	6,042
7,008	5,892	7,007	7,007	6,042
$ (1,326)	$ 356	$ (775)	$ 317	$ (98)
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

Last Two Fiscal Years

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2015

Changes of benefit terms.

	Cost of Living Increase									
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Cost-Sharing, Multiple-Employer										
Teachers' and State Employees'	N/A	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	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	N/A
Registers of Deeds'	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Single-Employer										
Consolidated Judicial	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
Legislative	N/A	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	N/A

(1) In 2006, the Firefighters' and Rescue Squad Workers' Pension Fund increased retirement benefits from $161 to $163. In 2007, retirement benefits were increased from $163 to $165. In 2008, retirement benefits increased from $165 to $167. In 2009, retirement benefits were increased from $167 to $170.

(2) In 2007, the National Guard Pension Fund increased basic benefits from $75 to $80 and total potential benefits from $150 to $160. In 2008, basic benefits were increased from $80 to $95 and total potential benefits were increased from $160 to $190. In 2015, basic benefits were increased from $95 to $99 and total potential benefits were increased from $190 to $198.

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.

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REQUIRED SUPPLEMENTARY INFORMATION
PENSIONS — EMPLOYERS (PRIMARY GOVERNMENT AND COMPONENT UNITS)

Required supplementary information for employers provides information on the allocations of net pension liabilities and employer contributions.

The Required Supplementary Information for Employers includes the following schedules:

Schedule of the Primary Government's and Component Units' Proportionate Share of the Net Pension Liability

Schedule of the Primary Government's (Nonemployer) Proportionate Share of the Net Pension Liability

Schedule of the Primary Government and Component Units Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Note: For information about the net pension liability of Consolidated Judicial and Legislative (single employer plans) and the primary government's contributions to Consolidated Judicial, Legislative, Firefighters' and Rescue Squad Workers', and North Carolina National Guard, refer to the preceding section on required supplementary information for pension plans. Firefighters' and Rescue Squad Workers' and the North Carolina National Guard are special funding situations in which the State is not the employer but is the only contributing entity. The net pension liabilities of pension plans were measured as of June 30, 2015. The net pension liabilities of employers were measured as of June 30, 2014.

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

Last Two Fiscal Years*

(Dollars in Thousands)

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

Teachers' and State Employees'	**2015**	**2014**
Primary Government		
Proportion of the net pension liability	22.78%	22.95%
Proportionate share of the net pension liability	$ 267,119	$ 1,393,385
Covered-employee payroll	$ 3,255,443	$ 3,203,001
Proportionate share of the net pension liability as a percentage of covered-employee payroll	8.21%	43.50%
Component Units		
University of North Carolina System		
Proportion of the net pension liability	14.79%	14.48%
Proportionate share of the net pension liability	$ 173,441	$ 878,936
Covered-employee payroll	$ 2,089,885	$ 1,987,497
Proportionate share of the net pension liability as a percentage of covered-employee payroll	8.30%	44.22%
Community Colleges		
Proportion of the net pension liability	5.87%	5.80%
Proportionate share of the net pension liability	$ 68,803	$ 352,004
Covered-employee payroll	$ 853,383	$ 1,165,333
Proportionate share of the net pension liability as a percentage of covered-employee payroll	8.06%	30.21%
Other Component Units		
Proportion of the net pension liability	0.17%	0.17%
Proportionate share of the net pension liability	$ 2,049	$ 10,605
Covered-employee payroll	$ 25,673	$ 39,228
Proportionate share of the net pension liability as a percentage of covered-employee payroll	7.98%	27.03%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S (NONEMPLOYER) PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Two Fiscal Years*

(Dollars in Thousands)

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

Firefighters' and Rescue Squad Workers'	**2015**	**2014**
Primary Government		
Proportion of the net pension liability	100.00%	100.00%
Proportionate share of the net pension liability	$ 27,418	$ 67,725
Plan fiduciary net position as a percentage of the total pension liability	93.42%	83.58%

Single-Employer, Defined Benefit Pension Plans

North Carolina National Guard	**2015**	**2014**
Primary Government		
Proportion of the net pension liability	100.00%	100.00%
Proportionate share of the net pension liability	$ 30,176	$ 36,267
Plan fiduciary net position as a percentage of the total pension liability	78.48%	72.51%

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

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

Last Two Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	2015	2014
Primary Government		
Contractually required contribution	$ 320,093	$ 282,898
Contributions in relation to the contractually required contribution	320,093	282,898
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 3,498,284	$ 3,255,443
Contributions as a percentage of covered-employee payroll	9.15%	8.69%
Component Units		
University of North Carolina System		
Contractually required contribution	$ 187,863	$ 181,611
Contributions in relation to the contractually required contribution	187,863	181,611
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 2,053,148	$ 2,089,885
Contributions as a percentage of covered-employee payroll	9.15%	8.69%
Community Colleges		
Contractually required contribution	$ 78,840	$ 74,159
Contributions in relation to the contractually required contribution	78,840	74,159
Contribution deficiency (excess)	$ -	$ -
Covered Payroll	$ 861,639	$ 853,383
Contributions as a percentage of covered-employee payroll	9.15%	8.69%
Other Component Units		
Contractually required contribution	$ 2,340	$ 2,231
Contributions in relation to the contractually required contribution	2,340	2,231
Contribution excess	$ -	$ -
Covered Payroll	$ 25,574	$ 25,673
Contributions as a percentage of covered-employee payroll	9.15%	8.69%

Required Supplementary Information
Other Postemployment Benefits

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

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

Schedule of Funding Progress: Other Postemployment Benefits

Schedule of Employer Contributions: Other Postemployment Benefits

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2015

(Dollars in Thousands)

	Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)* **(1)**	*Unfunded AAL (UAAL) (b) - (a)*	*Funded Ratio (a) / (b)*	*Covered Payroll (c)* **(2)**	*UAAL as a Percentage of Covered Payroll ((b-a)/c)*
Retiree Health Benefit	12-31-14	$ 944,955	$ 27,559,481	$ 26,614,526	3.4%	$ 15,642,890	170.1%
	12-31-13	890,756	26,420,168	25,529,412	3.4%	15,080,627	169.3%
	12-31-12	765,828	23,883,107	23,117,279	3.2%	14,957,179	154.6%
Disability Income	12-31-14	$ 450,599	$ 503,060	$ 52,461	89.6%	$ 14,459,667	0.4%
	12-31-13	442,422	522,940	80,518	84.6%	14,294,017	0.6%
	12-31-12	432,667	503,192	70,525	86.0%	14,163,204	0.5%

(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, 2013-2015

(Dollars in Thousands)

	State Fiscal Year	*Annual Required Contribution*	*Percentage Contributed*
Retiree Health Benefit	2015	$ 2,223,032	36%
	2014	2,223,900	36%
	2013	2,021,026	42%
Disability Income	2015	$ 63,219	100%
	2014	65,730	100%
	2013	64,065	100%

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Required Supplementary Information
Budget

Required supplementary information for budget provides information on budget versus actual revenues, expenditures and changes in fund balance and related note disclosures for budgetary reporting.

The following schedules are included in the Required Supplementary Information for Budget:

Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget and Actual (Budgetary Basis—Non-GAAP): General Fund

Notes to Required Supplementary Information: Budgetary Reporting

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

For the Fiscal Year Ended June 30, 2015

(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Taxes:				
Individual income	$ 10,885,400	$ 10,885,400	$ 11,078,522	$ 193,122
Corporate income	1,095,200	1,095,200	1,327,688	232,488
Sales and use	6,244,360	6,244,360	6,252,023	7,663
Franchise	543,100	543,100	544,122	1,022
Insurance	508,700	508,700	510,676	1,976
Beverage	310,900	310,900	318,730	7,830
Tobacco products	248,700	248,700	248,534	(166)
Other	136,200	136,200	150,833	14,633
Non-Tax:				
Fees, licenses and fines	244,500	244,500	241,971	(2,529)
Investment income	11,300	11,300	18,324	7,024
Disproportionate share receipts	109,000	109,000	109,000	—
Other	310,353	310,353	280,949	(29,404)
Transfers in	215,900	215,900	215,872	(28)
Tobacco settlement	137,500	137,500	138,622	1,122
Departmental:				
Federal funds	14,290,942	13,810,497	12,901,702	(908,795)
Local funds	744,552	709,549	713,752	4,203
Inter-agency grants and allocations	26,031	41,147	22,445	(18,702)
Intra-governmental transactions	3,177,825	3,990,545	3,733,699	(256,846)
Sales and services	150,869	251,391	163,676	(87,715)
Rental and lease of property	14,879	15,709	14,151	(1,558)
Fees, licenses and fines	1,149,996	679,086	687,365	8,279
Contributions, gifts and grants	360,003	998,942	995,769	(3,173)
Federal recovery funds	293,627	141,065	67,295	(73,770)
Miscellaneous	379,290	184,821	143,202	(41,619)
Total Revenues	41,589,127	41,823,865	40,878,922	(944,943)
Expenditures				
Current:				
General government	1,037,499	1,071,569	825,788	245,781
Primary and secondary education	11,936,417	11,292,882	10,632,679	660,203
Higher education	4,584,329	4,786,030	4,725,513	60,517
Health and human services	19,386,742	19,940,801	19,268,416	672,385
Environment and natural resources	399,832	534,185	431,768	102,417
Economic development	616,675	705,573	556,511	149,062
Public safety, corrections, and regulation	2,860,662	2,906,297	2,799,825	106,472
Agriculture	188,808	198,836	179,277	19,559
Capital outlay	13,560	13,560	13,560	—
Debt service	778,878	827,553	721,057	106,496
Total Expenditures	41,803,402	42,277,286	40,154,394	2,122,892
Excess (deficiency) of revenues over expenditures	(214,275)	(453,421)	724,528	1,177,949
Total Fund Balance at July 1, as restated	1,807,543	1,807,543	1,807,543	—
Total Fund Balance at June 30	$ 1,593,268	$ 1,354,122	$ 2,532,071	$ 1,177,949

Fund balance reserved:	
Statutory	$ 1,478,688
Non-reverting purposes	788,872
Fund balance unreserved	264,511
Total Fund Balance at June 30	$ 2,532,071

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, 2015 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	General Fund
Fund balance (budgetary basis)	
June 30, 2015	$ 2,532,071
Reconciling Adjustments	
Basis Differences	
Accrued revenues	
Taxes receivable	1,823,330
Less tax refunds payable	(965,642)
Accounts receivable and other receivables	397,748
Federal funds, net	648,136
Unearned revenue	(387,884)
Total accrued revenues	1,515,688
Accrued expenditures	
Medical claims payable	(885,588)
Accounts payable, accrued liabilities, and other payables	(1,064,493)
Total accrued expenditures	(1,950,081)
Other Adjustments	
Notes receivable	34,336
Inventories	76,938
Timing Differences	
Authorized carryforward for specific encumbrances	260,130
Forward funded state aid	39,461
Fund balance (GAAP basis)	
June 30, 2015	$ 2,508,543

D. Budgetary Reserves

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

Savings Reserve Account (General Statute 143C-4-2). The State Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.

At the beginning of fiscal year 2014-15, the balance of the Savings Reserve Account was $651.6 million. In accordance with Session Law 2015-241, the State Controller was authorized by the General Assembly to transfer $200 million from unreserved fund balance to the Savings Reserve. At the end of the fiscal year 2014-15, the balance of this reserve was $851.6 million.

Repairs and Renovations Reserve Account (General Statute 143C−4−3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2015-241, the State Controller was authorized by the General Assembly to transfer $400 million from unreserved fund balance to the Repairs and Renovations Reserve. At the end of the fiscal year 2014-15, the balance of this reserve was $411.59 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 2014-15, the balance of this reserve was $7.36 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 $47.47 million for fiscal year 2014-15. At the end of the fiscal year 2014-15, the balance of this reserve was $6.67 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 $1.86 million for fiscal year 2014-15 by Session Law 2014-100. At the end of the fiscal year 2014-15, the balance of this reserve was $7.68 million.

Medicaid Contingency Reserve (Session Law 2014-100, Senate Bill 744). In accordance with Session Law 2014-100, Senate Bill 744, Section 12H.38.(a) established in the General Fund the Medicaid Contingency Reserve. Funds in the Medicaid Contingency Reserve shall be used only for budget shortfalls in the Medicaid Program. In accordance with Session Law 2014-100, the State Controller was authorized by the General Assembly to transfer $186.37 million from funds available in the General Fund to this reserve. At the end of the fiscal year 2014-15, the balance of this reserve was $186.37 million.

WCU & DOA Carryforward Pilot Reserve (Session Law 2014-100, Senate Bill 744). In accordance with Session Law 2014-100, Senate Bill 744, Section 6.7, the General Assembly required the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division to review current budgeting practices in the General Fund. After review, the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, may establish and operate a pilot program to test measures for improving the extent to which funds that are to be spent in a given fiscal year are properly budgeted in that fiscal year. Western Carolina University and the Department of Administration were selected to participate in this pilot program. Carryforward funds were transferred from their General Fund and placed in the Carryforward Pilot Reserve. At the end of the fiscal year 2014-15, the balance of this reserve was $7.42 million.

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Combining Fund Statements and Schedules

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NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015 *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 755,505	$ —	$ 1,686	$ 757,191
Investments	294,700	—	—	294,700
Securities lending collateral	43,162	2,441	11,598	57,201
Receivables, net:				
Taxes receivable	2,486	—	—	2,486
Accounts receivable	21,407	1	15	21,423
Intergovernmental receivable	1,409	4	—	1,413
Interest receivable	195	121	295	611
Due from other funds	8,337	—	—	8,337
Inventories	25,338	—	—	25,338
Notes receivable, net	1,056	43,364	—	44,420
Securities held in trust	44,199	—	—	44,199
Restricted/designated cash and cash equivalents	—	229,076	9,389	238,465
Restricted investments	1,909	365,611	112,732	480,252
Total Assets	1,199,703	640,618	135,715	1,976,036
Deferred Outflows of Resources				
Forward funded state aid	78,990	—	—	78,990
Total Assets and Deferred Outflows	$ 1,278,693	$ 640,618	$ 135,715	$ 2,055,026
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 12,775	$ 19,126	$ —	$ 31,901
Accrued payroll	77	—	—	77
Intergovernmental payable	6,120	97	—	6,217
Claims payable	52,500	—	—	52,500
Obligations under securities lending	43,162	2,441	11,598	57,201
Due to other funds	302	9	—	311
Due to component units	—	16,067	—	16,067
Unearned revenue	8,311	425	—	8,736
Deposits payable	3	—	—	3
Funds held for others	44,305	—	—	44,305
Total Liabilities	167,555	38,165	11,598	217,318
Deferred Inflows of Resources				
Unavailable revenue	3,254	—	—	3,254
Fund Balances				
Nonspendable	25,338	—	102,627	127,965
Restricted	669,357	366,550	19,904	1,055,811
Committed	413,189	234,892	1,586	649,667
Assigned	—	1,011	—	1,011
Total Fund Balances	1,107,884	602,453	124,117	1,834,454
Total Liabilities, Deferred Inflows and Fund Balances	$ 1,278,693	$ 640,618	$ 135,715	$ 2,055,026

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

For the Fiscal Year Ended June 30, 2015 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales and use tax	$ 7,779	$ —	$ —	$ 7,779
Gasoline tax	25,268	—	—	25,268
Other taxes	106,890	—	—	106,890
Federal funds	80,103	9,748	—	89,851
Local funds	5,750	—	—	5,750
Investment earnings	7,119	318	3,083	10,520
Interest earnings on loans	7	553	—	560
Sales and services	149,870	745	—	150,615
Rental and lease of property	3,440	—	—	3,440
Fees, licenses, and fines	166,382	846	4,418	171,646
Contributions, gifts, and grants	27,170	23,399	9	50,578
Funds escheated	165,062	—	—	165,062
Miscellaneous	39,980	43	—	40,023
Total revenues	784,820	35,652	7,510	827,982
Expenditures				
Current:				
General government	44,834	208	—	45,042
Higher education	44,358	58,027	27	102,412
Health and human services	77,317	—	—	77,317
Economic development	18,978	548	—	19,526
Environment and natural resources	141,042	6,689	56	147,787
Public safety, corrections, and regulation	272,676	—	—	272,676
Agriculture	20,859	—	—	20,859
Capital outlay	—	113,689	—	113,689
Debt service:				
Principal retirement	4,190	—	—	4,190
Interest and fees	6	56	—	62
Debt issuance costs	—	467	—	467
Total expenditures	624,260	179,684	83	804,027
Excess revenues over (under) expenditures	160,560	(144,032)	7,427	23,955
Other Financing Sources (Uses)				
General obligation bonds issued	—	231,360	—	231,360
Other debt issued	278	—	—	278
Premium on debt issued	—	29,381	—	29,381
Sale of capital assets	140	21	—	161
Insurance recoveries	4	9	—	13
Transfers in	43,254	37,812	—	81,066
Transfers out	(111,688)	(23,300)	(2,544)	(137,532)
Total other financing sources (uses)	(68,012)	275,283	(2,544)	204,727
Net change in fund balances	92,548	131,251	4,883	228,682
Fund balances — July 1, as restated	1,015,336	471,202	119,234	1,605,772
Fund balances — June 30	$ 1,107,884	$ 602,453	$ 124,117	$ 1,834,454

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NONMAJOR SPECIAL REVENUE FUNDS

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.

The following are included in the nonmajor special revenue funds:

Escheat Fund
Correction Enterprises Fund
Leaking Petroleum Underground Storage Tank Cleanup Fund
911 Fund
Environment Management Protection Funds
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2015

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	911 Fund
Assets				
Cash and cash equivalents	$ 292,652	$ 11,562	$ 36,440	$ 42,564
Investments	285,558	—	—	—
Securities lending collateral	30,746	—	—	2,923
Receivables, net:				
Taxes receivable	—	—	1,709	—
Accounts receivable	—	2,404	443	5,203
Intergovernmental receivable	—	376	—	—
Interest receivable	131	—	—	19
Due from other funds	—	690	—	2,201
Inventories	—	22,090	—	—
Notes receivable	—	—	648	—
Securities held in trust	—	—	—	—
Restricted investments	—	—	—	—
Total Assets	609,087	37,122	39,240	52,910
Deferred Outflows of Resources				
Forward funded state aid	78,990	—	—	—
Total Assets and Deferred Outflows	$ 688,077	$ 37,122	$ 39,240	$ 52,910
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 289	$ 1,623	$ 1,279	$ 380
Accrued payroll	—	9	—	—
Intergovernmental payable	—	—	5	5,153
Claims payable	52,500	—	—	—
Obligations under securities lending	30,746	—	—	2,923
Due to other funds	—	81	—	37
Unearned revenue	—	43	—	—
Deposits payable	—	—	—	—
Funds held for others	—	—	—	—
Total Liabilities	83,535	1,756	1,284	8,493
Deferred Inflows of Resources				
Unavailable revenue	—	—	—	—
Fund Balances				
Nonspendable	—	22,090	—	—
Restricted	604,542	—	—	—
Committed	—	13,276	37,956	44,417
Total Fund Balances	604,542	35,366	37,956	44,417
Total Liabilities, Deferred Inflows and Fund Balances	$ 688,077	$ 37,122	$ 39,240	$ 52,910

Exhibit C-3

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
$ 135,069	$ 237,218	$ 755,505
8,829	313	294,700
4,134	5,359	43,162
777	—	2,486
7,101	6,256	21,407
367	666	1,409
22	23	195
5,446	—	8,337
—	3,248	25,338
197	211	1,056
44,199	—	44,199
1,909	—	1,909
208,050	253,294	1,199,703
—	—	78,990
$ 208,050	$ 253,294	$ 1,278,693
$ 4,809	$ 4,395	$ 12,775
39	29	77
840	122	6,120
—	—	52,500
4,134	5,359	43,162
83	101	302
100	8,168	8,311
—	3	3
44,199	106	44,305
54,204	18,283	167,555
1,813	1,441	3,254
—	3,248	25,338
6,309	58,506	669,357
145,724	171,816	413,189
152,033	233,570	1,107,884
$ 208,050	$ 253,294	$ 1,278,693

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

For the Fiscal Year Ended June 30, 2015

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	911 Fund
Revenues				
Taxes:				
Sales and use tax	$ —	$ —	$ —	$ —
Gasoline tax	—	—	18,059	—
Other taxes	—	—	—	77,969
Federal funds	—	—	—	—
Local funds	—	—	—	—
Investment earnings (loss)	6,819	—	(73)	248
Interest earnings on loans	—	—	—	—
Sales and services	—	92,900	—	788
Rental and lease of property	—	571	—	—
Fees, licenses, and fines	—	—	10,451	—
Contributions, gifts, and grants	—	9	—	—
Funds escheated	165,062	—	—	—
Miscellaneous	—	117	1,250	—
Total revenues	171,881	93,597	29,687	79,005
Expenditures				
Current:				
General government	—	—	—	—
Higher education	43,589	—	—	—
Health and human services	—	—	—	—
Economic development	—	—	—	—
Environment and natural resources	—	—	26,432	—
Public safety, corrections, and regulation	—	87,627	—	85,321
Agriculture	—	—	—	—
Debt service:				
Principal retirement	—	—	—	—
Interest and fees	—	—	—	—
Total expenditures	43,589	87,627	26,432	85,321
Excess revenues over (under) expenditures	128,292	5,970	3,255	(6,316)
Other Financing Sources (Uses)				
Other debt issued	—	—	—	—
Sale of capital assets	—	40	—	—
Insurance recoveries	—	—	—	—
Transfers in	—	202	3,417	—
Transfers out	(22,856)	(3,015)	(5,505)	(30)
Total other financing sources (uses)	(22,856)	(2,773)	(2,088)	(30)
Net change in fund balances	105,436	3,197	1,167	(6,346)
Fund balances — July 1	499,106	32,169	36,789	50,763
Fund balances — June 30	$ 604,542	$ 35,366	$ 37,956	$ 44,417

Exhibit C-4

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
$ 7,779	$ —	$ 7,779
7,209	—	25,268
9,504	19,417	106,890
2,876	77,227	80,103
777	4,973	5,750
161	(36)	7,119
7	—	7
115	56,067	149,870
563	2,306	3,440
75,384	80,547	166,382
18,610	8,551	27,170
—	—	165,062
628	37,985	39,980
123,613	287,037	784,820
—	44,834	44,834
—	769	44,358
—	77,317	77,317
—	18,978	18,978
114,610	—	141,042
—	99,728	272,676
—	20,859	20,859
1,271	2,919	4,190
—	6	6
115,881	265,410	624,260
7,732	21,627	160,560
—	278	278
33	67	140
—	4	4
11,583	28,052	43,254
(15,929)	(64,353)	(111,688)
(4,313)	(35,952)	(68,012)
3,419	(14,325)	92,548
148,614	247,895	1,015,336
$ 152,033	$ 233,570	$ 1,107,884

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, 2015

(Dollars in Thousands)

	Escheat Fund			Correction Enterprises Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund		
Revenues	**Final Budget**	**Actual**	**Variance with Final Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	12	9	(3)	—	—	—
Intra-governmental transactions	—	—	—	206	205	(1)	18,432	21,267	2,835
Sales and services	—	—	—	91,870	92,900	1,030	—	—	—
Sale, rental, and lease of property	—	—	—	489	613	124	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	7,231	10,378	3,147
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Miscellaneous	202,107	124,354	(77,753)	165	117	(48)	10	1,257	1,247
Total revenues	202,107	124,354	(77,753)	92,742	93,844	1,102	25,673	32,902	7,229
Expenditures									
Current:									
General government	—	—	—	—	—	—	—	—	—
Higher education	94,118	85,229	8,889	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	—	—	—
Environmental and natural resources	—	—	—	—	—	—	54,949	35,181	19,768
Public safety and corrections	—	—	—	93,606	91,962	1,644	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Total expenditures	94,118	85,229	8,889	93,606	91,962	1,644	54,949	35,181	19,768
Excess revenues over (under) expenditures	$107,989	39,125	$ (68,864)	$ (864)	1,882	$ 2,746	$ (29,276)	(2,279)	$ 26,997
Fund balances (budgetary basis) at July 1, as restated		480,854			9,680			38,719	
Fund balances (budgetary basis) at June 30		$ 519,979			$ 11,562			$ 36,440	

Exhibit C-5

911 Fund Final Budget	911 Fund Actual	911 Fund Variance with Final Budget	Environment Management Protection Funds Final Budget	Environment Management Protection Funds Actual	Environment Management Protection Funds Variance with Final Budget	Departmental Funds Final Budget	Departmental Funds Actual	Departmental Funds Variance with Final Budget	Total Nonmajor Special Revenue Funds Final Budget	Total Nonmajor Special Revenue Funds Actual	Total Nonmajor Special Revenue Funds Variance with Final Budget
$ —	$ —	$ —	$ 6,770	$ 2,520	$ (4,250)	$ 94,657	$ 76,856	$ (17,801)	$ 101,427	$ 79,376	$ (22,051)
—	—	—	3,563	777	(2,786)	6,956	4,973	(1,983)	10,519	5,750	(4,769)
—	—	—	23,111	17,093	(6,018)	10,734	5,168	(5,566)	33,857	22,270	(11,587)
—	—	—	82,758	69,719	(13,039)	72,041	61,348	(10,693)	173,437	152,539	(20,898)
810	787	(23)	135	116	(19)	64,121	55,925	(8,196)	156,936	149,728	(7,208)
—	—	—	61	600	539	3,014	2,383	(631)	3,564	3,596	32
79,232	77,957	(1,275)	120,088	72,629	(47,459)	80,672	81,616	944	287,223	242,580	(44,643)
—	—	—	393	204	(189)	6,277	3,069	(3,208)	6,670	3,273	(3,397)
240	221	(19)	4,667	1,478	(3,189)	46,527	64,982	18,455	253,716	192,409	(61,307)
80,282	78,965	(1,317)	241,546	165,136	(76,410)	384,999	356,320	(28,679)	1,027,349	851,521	(175,828)
—	—	—	—	—	—	81,326	52,111	29,215	81,326	52,111	29,215
—	—	—	—	—	—	1,006	809	197	95,124	86,038	9,086
—	—	—	—	—	—	117,058	96,644	20,414	117,058	96,644	20,414
—	—	—	—	—	—	27,525	24,263	3,262	27,525	24,263	3,262
—	—	—	267,011	163,080	103,931	—	—	—	321,960	198,261	123,699
110,972	84,981	25,991	—	—	—	188,454	163,966	24,488	393,032	340,909	52,123
—	—	—	—	—	—	30,495	24,760	5,735	30,495	24,760	5,735
—	—	—	1,271	1,271	—	—	—	—	1,271	1,271	—
—	—	—	581	—	581	—	—	—	581	—	581
110,972	84,981	25,991	268,863	164,351	104,512	445,864	362,553	83,311	1,068,372	824,257	244,115
$ (30,690)	(6,016)	$ 24,674	$(27,317)	785	$ 28,102	$ (60,865)	(6,233)	$ 54,632	$ (41,023)	27,264	$ 68,287
	48,580			145,415			242,328			965,576	
	$ 42,564			$146,200			$ 236,095			$ 992,840	

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NONMAJOR CAPITAL PROJECTS FUNDS

The Capital Projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets, as well as capital grants to component units and other governmental entities. They are financed principally by debt proceeds and transfers from the General Fund.

The following activities are included in the nonmajor capital projects funds:

Non-Debt Supported Fund
Debt Supported Fund

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

June 30, 2015 *Exhibit C-6*

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	Total Nonmajor Capital Projects Funds
Assets			
Securities lending collateral	$ 2,441	$ —	$ 2,441
Receivables, net:			
Accounts receivable	1	—	1
Intergovernmental receivable	4	—	4
Interest receivable	100	21	121
Notes receivable, net	43,364	—	43,364
Restricted/designated cash and cash equivalents	229,074	2	229,076
Restricted investments	—	365,611	365,611
Total Assets	$ 274,984	$ 365,634	$ 640,618
Liabilities			
Accounts payable and accrued liabilities:			
Accounts payable	$ 15,375	$ 3,751	$ 19,126
Intergovernmental payable	75	22	97
Obligations under securities lending	2,441	—	2,441
Due to other funds	3	6	9
Due to component units	15,728	339	16,067
Unearned revenue	425	—	425
Total Liabilities	34,047	4,118	38,165
Fund Balances			
Restricted	5,034	361,516	366,550
Committed	234,892	—	234,892
Assigned	1,011	—	1,011
Total Fund Balances	240,937	361,516	602,453
Total Liabilities and Fund Balances	$ 274,984	$ 365,634	$ 640,618

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

For the Fiscal Year Ended June 30, 2015 *Exhibit C-7*

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	Total Nonmajor Capital Projects Funds
Revenues			
Federal funds	$ 9,748	$ —	$ 9,748
Investment earnings	181	137	318
Interest earnings on loans	553	—	553
Sales and services	745	—	745
Fees, licenses, and fines	846	—	846
Contributions, gifts, and grants	23,399	—	23,399
Miscellaneous	43	—	43
Total revenues	35,515	137	35,652
Expenditures			
Current:			
General government	—	208	208
Higher education	33	57,994	58,027
Economic development	—	548	548
Environment and natural resources	5,277	1,412	6,689
Capital outlay	93,153	20,536	113,689
Debt service:			
Interest and fees	—	56	56
Debt issuance costs	—	467	467
Total expenditures	98,463	81,221	179,684
Excess revenues over (under) expenditures	(62,948)	(81,084)	(144,032)
Other Financing Sources (Uses)			
General obligation bonds issued	—	231,360	231,360
Premium on debt issued	—	29,381	29,381
Sale of capital assets	21	—	21
Insurance recoveries	9	—	9
Transfers in	37,812	—	37,812
Transfers out	(12,848)	(10,452)	(23,300)
Total other financing sources (uses)	24,994	250,289	275,283
Net change in fund balances	(37,954)	169,205	131,251
Fund balances — July 1, as restated	278,891	192,311	471,202
Fund balances — June 30	$ 240,937	$ 361,516	$ 602,453

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS

June 30, 2015 *Exhibit C-8*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents	$ —	$ 1,686	$ 1,686
Securities lending collateral	10,868	730	11,598
Receivables, net:			
Accounts receivable	12	3	15
Interest receivable	290	5	295
Restricted/designated cash and cash equivalents	432	8,957	9,389
Restricted investments	112,215	517	112,732
Total Assets	$ 123,817	$ 11,898	$ 135,715
Liabilities			
Obligations under securities lending	$ 10,868	$ 730	$ 11,598
Fund Balances			
Nonspendable	93,157	9,470	102,627
Restricted	19,792	112	19,904
Committed	—	1,586	1,586
Total Fund Balances	112,949	11,168	124,117
Total Liabilities and Fund Balances	$ 123,817	$ 11,898	$ 135,715

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

For the Fiscal Year Ended June 30, 2015 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues			
Investment earnings	$ 3,022	$ 61	$ 3,083
Fees, licenses, and fines	3,485	933	4,418
Contributions, gifts, and grants	9	—	9
Total revenues	6,516	994	7,510
Expenditures			
Current:			
Higher education	—	27	27
Environment and natural resources	13	43	56
Total expenditures	13	70	83
Excess revenues over (under) expenditures	6,503	924	7,427
Other Financing Sources (Uses)			
Transfers out	(2,544)	—	(2,544)
Net change in fund balances	3,959	924	4,883
Fund balances — July 1	108,990	10,244	119,234
Fund balances — June 30	$ 112,949	$ 11,168	$ 124,117

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, 2015

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
Revenues:	**Final Budget**	**Actual**	**Variance with Final Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
Departmental:						
Intra-governmental transactions.......................	$ —	$ 1,936	$ 1,936	$ —	$ —	$ —
Fees, licenses, and fines.................................	1,773	3,481	1,708	1,380	929	(451)
Contributions, gifts, and grants........................	7	9	2	—	—	—
Miscellaneous..	3,359	9,190	5,831	296	46	(250)
Total revenues...	5,139	14,616	9,477	1,676	975	(701)
Expenditures:						
Current:						
Higher education…………………….....................	—	—	—	29	27	2
Environmental and natural resources................	5,528	4,480	1,048	685	41	644
Total expenditures...	5,528	4,480	1,048	714	68	646
Excess revenues over (under) expenditures	$ (389)	10,136	$ 10,525	$ 962	907	$ (55)
Fund balances (budgetary basis)						
at July 1, as restated.......................................		107,840			10,258	
Fund balances (budgetary basis)						
at June 30...		$ 117,976			$ 11,165	

Exhibit C-10

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
$ —	$ 1,936	$ 1,936
3,153	4,410	1,257
7	9	2
3,655	9,236	5,581
6,815	15,591	8,776
29	27	2
6,213	4,521	1,692
6,242	4,548	1,694
$ 573	11,043	$ 10,470
	118,098	
	$ 129,141	

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Proprietary Funds

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NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for and report activities for which a fee is charged to external users for goods or services.

The following activities are included in the nonmajor enterprise funds:

Public School Insurance
North Carolina State Fair
USS North Carolina Battleship Commission
Agricultural Farmers Market
Workers' Compensation
Utilities Commission
State Banking Commission
ABC Commission
Occupational Licensing Boards
Departmental Funds

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS

June 30, 2015

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Assets						
Current Assets						
Cash and cash equivalents	$ 20,465	$ 5,049	$ 4,997	$ 2,339	$ 12,059	$ 5,036
Investments	76,655	—	—	—	12,159	—
Securities lending collateral	8,759	—	171	—	2,003	224
Receivables:						
Accounts receivable, net	—	338	340	5	—	15
Intergovernmental receivable	—	—	—	—	—	—
Interest receivable	9	—	—	—	3	—
Premiums receivable	2,417	—	—	—	338	—
Inventories	—	105	248	15	—	32
Prepaid items	2,691	—	171	—	—	—
Restricted cash and cash equivalents	—	—	180	—	—	—
Total current assets	110,996	5,492	6,107	2,359	26,562	5,307
Noncurrent Assets						
Investments	—	—	1,545	—	—	—
Notes receivable	—	—	—	—	—	—
Prepaid items	—	—	—	—	—	—
Capital assets-nondepreciable	—	1,378	452	3,755	—	—
Capital assets-depreciable, net	—	15,595	2,353	7,778	—	132
Total noncurrent assets	—	16,973	4,350	11,533	—	132
Total Assets	110,996	22,465	10,457	13,892	26,562	5,439
Deferred Outflows of Resources						
Deferred outflows for pensions	48	293	—	98	—	919
Liabilities						
Current Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable	14	205	88	48	—	37
Accrued payroll	—	18	48	3	—	—
Intergovernmental payable	—	—	—	—	—	—
Claims payable	10,176	—	—	—	21,625	—
Obligations under securities lending	8,759	—	171	—	2,003	224
Due to other funds	5	7	—	1	—	13
Unearned revenue	4,506	715	30	—	3,952	—
Deposits payable	—	21	—	—	—	—
Notes payable	—	—	—	—	—	—
Compensated absences	11	34	1	14	—	228
Total current liabilities	23,471	1,000	338	66	27,580	502
Noncurrent Liabilities						
Accounts payable	—	—	—	—	—	—
Notes payable	—	—	—	—	—	—
Compensated absences	88	370	135	156	—	1,386
Net pension liability	36	211	—	75	—	674
Total noncurrent liabilities	124	581	135	231	—	2,060
Total Liabilities	23,595	1,581	473	297	27,580	2,562
Deferred Inflows of Resources						
Deferred inflows for pensions	132	760	—	270	—	2,434
Net Position						
Net investment in capital assets	—	16,973	2,805	11,533	—	132
Restricted for:						
Capital outlay	—	—	180	—	—	—
Other purposes	—	—	—	—	—	—
Unrestricted	87,317	3,444	6,999	1,890	(1,018)	1,230
Total Net Position	$ 87,317	$ 20,417	$ 9,984	$ 13,423	$ (1,018)	$ 1,362

Exhibit D-1

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ 2,432	$ 4,092	$ 28,472	$ 5,147	$ 90,088
—	—	12,962	—	101,776
—	—	41	414	11,612
—	231	388	62	1,379
—	1,478	—	—	1,478
—	—	51	—	63
—	—	—	—	2,755
—	3	26	140	569
—	—	513	—	3,375
—	—	—	—	180
2,432	5,804	42,453	5,763	213,275
—	—	12,008	—	13,553
—	—	157	—	157
—	—	97	—	97
—	551	5,272	339	11,747
69	2,048	38,862	6,635	73,472
69	2,599	56,396	6,974	99,026
2,501	8,403	98,849	12,737	312,301
756	203	73	245	2,635
65	70	2,307	102	2,936
—	—	—	9	78
—	—	—	5	5
—	—	—	—	31,801
—	—	41	414	11,612
22	33	46	5	132
—	—	22,433	75	31,711
—	—	—	—	21
—	—	998	—	998
184	28	582	54	1,136
271	131	26,407	664	80,430
—	—	249	—	249
—	—	16,943	—	16,943
1,115	280	1,178	400	5,108
563	1,657	845	178	4,239
1,678	1,937	19,215	578	26,539
1,949	2,068	45,622	1,242	106,969
2,032	6,104	3,112	643	15,487
69	2,599	26,193	6,974	67,278
—	—	—	—	180
—	—	1,076	—	1,076
(793)	(2,165)	22,919	4,123	123,946
$ (724)	$ 434	$ 50,188	$ 11,097	$ 192,480

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

For the Fiscal Year Ended June 30, 2015

(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	$ —	$ 276	$ 744	$ 48	$ —	$ 8
Student tuition and fees, net	—	—	—	—	—	—
Rental and lease earnings	—	5,523	245	985	—	—
Fees, licenses, and fines	—	9,185	2,068	1,968	—	16,159
Insurance premiums	12,645	—	—	—	5,996	—
Miscellaneous	—	1	13	—	—	99
Total operating revenues	12,645	14,985	3,070	3,001	5,996	16,266
Operating Expenses						
Personal services	572	5,956	1,553	1,392	—	12,304
Supplies and materials	2	1,232	118	158	—	196
Services	59	5,229	830	705	1,340	593
Cost of goods sold	—	—	288	—	—	—
Depreciation	—	1,106	118	494	—	11
Claims	8,625	93	—	—	7,472	—
Insurance and bonding	3,545	166	23	78	—	2
Other	2	1,168	184	27	—	826
Total operating expenses	12,805	14,950	3,114	2,854	8,812	13,932
Operating income (loss)	(160)	35	(44)	147	(2,816)	2,334
Nonoperating Revenues (Expenses)						
Noncapital grants	—	—	—	—	—	466
Noncapital gifts, net	—	904	289	—	—	—
Investment earnings	2,087	—	70	—	292	2
Interest and fees	—	—	—	—	—	—
(Loss) on sale of equipment	—	(25)	—	—	—	(40)
Miscellaneous	(12)	22	(1)	—	(3)	1
Total nonoperating revenues (expenses)	2,075	901	358	—	289	429
Income (loss) before contributions and transfers	1,915	936	314	147	(2,527)	2,763
Capital contributions	—	11,462	56	—	—	—
Transfers in	—	—	—	—	6,420	—
Transfers out	—	(515)	—	(43)	—	(282)
Change in net position	1,915	11,883	370	104	3,893	2,481
Net position — July 1, as restated	85,402	8,534	9,614	13,319	(4,911)	(1,119)
Net position — June 30	$ 87,317	$ 20,417	$ 9,984	$ 13,423	$ (1,018)	$ 1,362

Exhibit D-2

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ —	$ 23	$ 526	$ 163	$ 1,788
—	—	15	—	15
—	—	29	1,484	8,266
13,377	15,633	49,158	3,502	111,050
—	—	—	—	18,641
381	—	747	19	1,260
13,758	15,656	50,475	5,168	141,020
10,012	3,462	33,458	3,941	72,650
32	111	1,166	307	3,322
1,698	10,990	8,876	1,381	31,701
—	—	—	77	365
6	115	2,333	235	4,418
—	—	371	—	16,561
2	17	107	116	4,056
704	237	2,080	336	5,564
12,454	14,932	48,391	6,393	138,637
1,304	724	2,084	(1,225)	2,383
—	20	—	—	486
—	—	—	773	1,966
—	—	584	34	3,069
—	—	(613)	—	(613)
—	(8)	(18)	—	(91)
—	—	(8)	11	10
—	12	(55)	818	4,827
1,304	736	2,029	(407)	7,210
—	—	—	—	11,518
—	—	60	508	6,988
(154)	(18)	—	(47)	(1,059)
1,150	718	2,089	54	24,657
(1,874)	(284)	48,099	11,043	167,823
$ (724)	$ 434	$ 50,188	$ 11,097	$ 192,480

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2015

(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	$ 14,022	$ 15,000	$ 3,073	$ 3,017	$ 5,787	$ 16,160
Payments to suppliers	(3,371)	(6,655)	(1,483)	(957)	(1,325)	(1,013)
Payments to employees	(593)	(6,201)	(1,532)	(1,436)	—	(12,835)
Payments for prizes, benefits, and claims	(3,947)	(630)	—	—	(7,397)	—
Other receipts	—	23	—	—	—	100
Other payments	—	(504)	—	(20)	—	(621)
Net cash flows provided (used) by operating activities	6,111	1,033	58	604	(2,935)	1,791
Cash Provided From (Used For) Noncapital Financing Activities						
Grant receipts	—	—	—	—	—	466
Transfers from other funds	—	—	—	—	6,420	—
Transfers to other funds	—	(515)	—	(43)	—	(282)
Gifts	—	904	286	—	—	—
Total cash provided from (used for) noncapital financing activities	—	389	286	(43)	6,420	184
Cash Provided From (Used For) Capital and Related Financing Activities						
Acquisition and construction of capital assets	—	(81)	(112)	(34)	—	—
Proceeds from the sale of capital assets	—	5	—	—	—	—
Capital contributions	—	—	56	—	—	—
Principal paid on capital debt	—	—	—	—	—	—
Interest paid on capital debt	—	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities	—	(76)	(56)	(34)	—	—
Cash Provided From (Used For) Investment Activities						
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	—	—	—	—
Purchase of non-State Treasurer investments	—	—	(624)	—	—	—
Purchase into State Treasurer investment pool	(5,000)	—	—	—	—	—
Investment earnings	95	—	48	—	34	19
Total cash provided from (used for) investment activities	(4,905)	—	(576)	—	34	19
Net increase (decrease) in cash and cash equivalents	1,206	1,346	(288)	527	3,519	1,994
Cash and cash equivalents at July 1, as restated	19,259	3,703	5,465	1,812	8,540	3,042
Cash and cash equivalents at June 30	$ 20,465	$ 5,049	$ 5,177	$ 2,339	$ 12,059	$ 5,036
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities						
Operating income (loss)	$ (160)	$ 35	$ (44)	$ 147	$ (2,816)	$ 2,334
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation	—	1,106	118	494	—	11
Pension expense	18	97	—	34	—	297
Nonoperating miscellaneous income (expense)	—	22	(14)	—	—	1
(Increases) decreases in assets and deferred outflows:						
Receivables	831	(102)	—	16	(238)	(7)
Inventories	—	(1)	(42)	1	—	—
Prepaid items	225	—	70	—	31	—
Deferred outflows for pensions	(40)	(267)	—	(88)	—	(888)
Notes receivable	—	—	—	—	—	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities	4,692	(34)	(58)	(15)	59	(19)
Due to other funds	(2)	1	—	(1)	—	2
Compensated absences	2	50	28	16	—	60
Unearned revenue	545	118	—	—	29	—
Deposits payable	—	8	—	—	—	—
Total cash provided from (used for) operations	$ 6,111	$ 1,033	$ 58	$ 604	$ (2,935)	$ 1,791
Noncash Investing, Capital, and Financing Activities						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 3,325	$ —	$ —	$ —	$ 785	$ —
Donated or transferred assets	—	11,462	—	—	—	—
Change in fair value of investments	(1,347)	—	32	—	(532)	(17)
Increase in receivables related to nonoperating income	—	—	1	—	—	—
Change in securities lending collateral	(2,441)	—	(143)	—	(591)	(214)

Exhibit D-3

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ 13,377	$ 13,952	$ 50,646	$ 5,091	$ 140,125
(1,877)	(11,076)	(2,829)	(2,031)	(32,617)
(10,345)	(2,965)	(30,387)	(4,044)	(70,338)
—	—	—	(105)	(12,079)
381	—	289	13	806
(537)	(215)	(12,459)	(179)	(14,535)
999	(304)	5,260	(1,255)	11,362
—	20	—	—	486
—	—	60	508	6,988
(154)	(18)	—	(47)	(1,059)
—	—	—	773	1,963
(154)	2	60	1,234	8,378
—	(7)	(1,130)	—	(1,364)
—	—	23	—	28
—	—	—	—	56
—	—	(1,774)	—	(1,774)
—	—	(613)	—	(613)
—	(7)	(3,494)	—	(3,667)
—	—	8,772	—	8,772
—	—	(9,085)	—	(9,709)
—	—	—	—	(5,000)
—	—	368	23	587
—	—	55	23	(5,350)
845	(309)	1,881	2	10,723
1,587	4,401	26,591	5,145	79,545
$ 2,432	$ 4,092	$ 28,472	$ 5,147	$ 90,268
$ 1,304	$ 724	$ 2,084	$ (1,225)	$ 2,383
6	115	2,333	235	4,418
248	677	346	79	1,796
—	—	(8)	11	12
—	(1,704)	66	(27)	(1,165)
—	13	54	(84)	(59)
—	—	(252)	—	74
(730)	(203)	(73)	(231)	(2,520)
—	—	4	—	4
23	44	449	(22)	5,119
(1)	7	44	(1)	49
149	23	(99)	60	289
—	—	312	(50)	954
—	—	—	—	8
$ 999	$ (304)	$ 5,260	$ (1,255)	$ 11,362
$ —	$ —	$ —	$ —	$ 4,110
(154)	—	—	—	11,308
—	—	119	11	(1,734)
—	—	—	—	1
—	—	(231)	(106)	(3,726)

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INTERNAL SERVICE FUNDS

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

The following activities are included in the internal service funds:

Department of Administration:
- Motor Fleet Management
- Mail Service Center
- Temporary Solutions
- Surplus Property

Office of the Governor:
- Computing Services
- State Telecommunications Services

Department of Insurance:
- State Property Fire Insurance

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS

June 30, 2015

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Assets					
Current Assets					
Cash and cash equivalents	$ 30,270	$ 33,943	$ 99	$ —	$ 7,381
Investments	30,958	—	—	—	—
Securities lending collateral	5,070	—	—	—	—
Receivables:					
Accounts receivable, net	—	1,248	466	6,519	2,740
Interest receivable	13	—	—	—	—
Premiums receivable	654	—	—	—	—
Due from other funds	—	2,988	—	1,093	6,026
Due from component units	—	274	—	—	2
Inventories	—	128	34	—	7
Prepaid items	—	—	—	—	5,847
Total current assets	66,965	38,581	599	7,612	22,003
Noncurrent Assets					
Capital assets-nondepreciable	—	288	—	—	3,089
Capital assets-depreciable, net	—	60,618	163	—	42,552
Total noncurrent assets	—	60,906	163	—	45,641
Total Assets	66,965	99,487	762	7,612	67,644
Deferred Outflows of Resources:					
Deferred outflows for pensions	121	188	204	66	2,546
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable	4,433	1,191	6	4	1,259
Accrued payroll	—	—	—	1,369	—
Claims payable	1,612	—	—	—	—
Obligations under securities lending	5,070	—	—	—	—
Due to other funds	—	5	62	—	2
Unearned revenue	8,004	—	—	—	—
Capital leases payable	—	—	—	—	—
Compensated absences	30	22	31	17	607
Total current liabilities	19,149	1,218	99	1,390	1,868
Noncurrent Liabilities					
Capital leases payable	—	—	—	—	—
Compensated absences	220	157	218	102	3,662
Net pension liability	97	121	132	43	1,980
Total noncurrent liabilities	317	278	350	145	5,642
Total Liabilities	19,466	1,496	449	1,535	7,510
Deferred Inflows of Resources:					
Deferred inflows for pensions	355	436	477	156	7,358
Net Position					
Net investment in capital assets	—	60,906	163	—	45,641
Unrestricted	47,265	36,837	(123)	5,987	9,681
Total Net Position	$ 47,265	$ 97,743	$ 40	$ 5,987	$ 55,322

Exhibit E-1

State Telecommunications Services	Surplus Property	Totals
$ 18,520	$ 2,213	$ 92,426
—	—	30,958
—	—	5,070
8,197	159	19,329
—	—	13
—	—	654
3,365	—	13,472
245	—	521
—	—	169
180	—	6,027
30,507	2,372	168,639
—	19	3,396
3,906	55	107,294
3,906	74	110,690
34,413	2,446	279,329
622	110	3,857
1,210	717	8,820
—	—	1,369
—	—	1,612
—	—	5,070
4	400	473
—	—	8,004
72	—	72
164	13	884
1,450	1,130	26,304
93	—	93
988	95	5,442
568	74	3,015
1,649	169	8,550
3,099	1,299	34,854
2,110	268	11,160
3,741	74	110,525
26,085	915	126,647
$ 29,826	$ 989	$ 237,172

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

For the Fiscal Year Ended June 30, 2015

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Operating Revenues					
Sales and services	$ —	$ 36,357	$ 3,686	$ 67,154	$ 98,111
Rental and lease earnings	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	1,596
Insurance premiums	21,825	—	—	—	—
Miscellaneous	—	221	—	—	—
Total operating revenues	21,825	36,578	3,686	67,154	99,707
Operating Expenses					
Personal services	1,698	2,630	2,628	66,012	35,245
Supplies and materials	6	12,100	45	53	9,515
Services	143	2,129	932	312	21,789
Cost of goods sold	—	455	—	—	—
Depreciation	—	11,327	49	—	6,422
Claims	978	—	—	—	—
Insurance and bonding	16,034	1,170	—	—	142
Other	74	10	89	70	31,817
Total operating expenses	18,933	29,821	3,743	66,447	104,930
Operating income (loss)	2,892	6,757	(57)	707	(5,223)
Nonoperating Revenues (Expenses)					
Noncapital grants	—	—	—	—	128
Investment earnings	865	—	—	—	—
Interest and fees	—	—	—	—	—
Insurance recoveries	—	150	—	—	—
Gain (loss) on sale of equipment	—	2,557	—	—	—
Miscellaneous	(9)	162	—	—	1
Total nonoperating revenues (expenses)	856	2,869	—	—	129
Income (loss) before contributions and transfers	3,748	9,626	(57)	707	(5,094)
Capital contributions	—	1,151	—	—	—
Transfers in	—	1,829	—	419	8,366
Transfers out	—	—	—	—	(57)
Change in net position	3,748	12,606	(57)	1,126	3,215
Net position — July 1, as restated (Note 23)	43,517	85,137	97	4,861	52,107
Net position — June 30	$ 47,265	$ 97,743	$ 40	$ 5,987	$ 55,322

Exhibit E-2

State Telecommunications Services	Surplus Property	Totals
$ 83,633	$ 2,633	$ 291,574
—	64	64
—	52	1,648
—	—	21,825
62	103	386
83,695	2,852	315,497
8,273	1,487	117,973
1,471	56	23,246
55,872	429	81,606
—	—	455
1,727	7	19,532
—	—	978
41	22	17,409
7,437	72	39,569
74,821	2,073	300,768
8,874	779	14,729
—	—	128
—	—	865
(23)	—	(23)
—	—	150
—	—	2,557
—	45	199
(23)	45	3,876
8,851	824	18,605
—	—	1,151
—	—	10,614
(5,762)	—	(5,819)
3,089	824	24,551
26,737	165	212,621
$ 29,826	$ 989	$ 237,172

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2015

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Cash Flows From Operating Activities					
Receipts from customers	$ 10,661	$ 3,806	$ 640	$ —	$ 2,089
Receipts from other funds	11,176	33,166	3,125	68,262	96,880
Payments to suppliers	(16,948)	(16,953)	(285)	(189)	(49,928)
Payments to employees	(1,744)	(2,679)	(2,660)	(68,534)	(36,571)
Payments for benefits and claims	(443)	—	—	—	—
Payments to other funds	(263)	(203)	(711)	(289)	(17,129)
Other receipts	—	383	—	—	1
Other payments	—	(3)	(10)	(67)	—
Net cash flows provided (used) by operating activities	2,439	17,517	99	(817)	(4,658)
Cash Provided From (Used For) Noncapital Financing Activities					
Grant receipts	—	—	—	—	128
Transfers from other funds	—	1,829	—	419	8,366
Transfers to other funds	—	—	—	—	(57)
Total cash provided from (used for) noncapital financing activities	—	1,829	—	419	8,437
Cash Provided From (Used For) Capital and Related Financing Activities					
Acquisition and construction of capital assets	—	(21,037)	—	—	(5,594)
Proceeds from the sale of capital assets	—	3,297	—	—	—
Principal paid on capital debt	—	—	—	—	—
Interest paid on capital debt	—	—	—	—	—
Insurance recoveries	—	150	—	—	—
Total cash provided from (used for) capital and related financing activities	—	(17,590)	—	—	(5,594)
Cash Provided From (Used For) Investment Activities					
Investment earnings	160	—	—	—	—
Net increase (decrease) in cash and cash equivalents	2,599	1,756	99	(398)	(1,815)
Cash and cash equivalents at July 1	27,671	32,187	—	398	9,196
Cash and cash equivalents at June 30	$ 30,270	$ 33,943	$ 99	$ —	$ 7,381
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities					
Operating income (loss)	$ 2,892	$ 6,757	$ (57)	$ 707	$ (5,223)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	—	11,327	49	—	6,422
Pension expense	41	65	71	23	792
Nonoperating miscellaneous income (expense)	—	162	—	—	1
(Increases) decreases in assets and deferred outflows:					
Receivables	32	574	80	(1,017)	(1,134)
Due from other funds	—	(72)	—	2,126	395
Due from component units	—	113	—	—	2
Inventories	—	7	82	—	—
Prepaid items	—	—	—	—	(4,439)
Deferred outflows for pensions	(122)	(140)	(151)	(48)	(2,546)
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	(419)	(1,270)	(11)	(2,643)	704
Due to other funds	—	(32)	(12)	(6)	(59)
Compensated absences	35	26	48	41	427
Unearned revenue	(20)	—	—	—	—
Total cash provided from (used for) operations	$ 2,439	$ 17,517	$ 99	$ (817)	$ (4,658)
Noncash Investing, Capital, and Financing Activities					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 1,998	$ —	$ —	$ —	$ —
Donated or transferred assets	—	1,151	—	—	—
Change in fair value of investments	(1,306)	—	—	—	—
Change in securities lending collateral	(2,245)	—	—	—	—

Exhibit E-3

State Telecommunications Services	Surplus Property	Totals
$ 17,282	$ 967	$ 35,445
64,799	1,716	279,124
(62,073)	(237)	(146,613)
(8,793)	(1,514)	(122,495)
—	—	(443)
(1,931)	(60)	(20,586)
—	147	531
—	(65)	(145)
9,284	954	24,818
—	—	128
—	—	10,614
(5,762)	—	(5,819)
(5,762)	—	4,923
(1,566)	—	(28,197)
—	—	3,297
(158)	—	(158)
(23)	—	(23)
—	—	150
(1,747)	—	(24,931)
—	—	160
1,775	954	4,970
16,745	1,259	87,456
$ 18,520	$ 2,213	$ 92,426
$ 8,874	$ 779	$ 14,729
1,727	7	19,532
228	39	1,259
—	45	208
(1,971)	(70)	(3,506)
286	5	2,740
70	—	185
—	—	89
(88)	—	(4,527)
(622)	(80)	(3,709)
1,195	77	(2,367)
(290)	140	(259)
(125)	12	464
—	—	(20)
$ 9,284	$ 954	$ 24,818
$ —	$ —	$ 1,998
—	—	1,151
—	—	(1,306)
—	—	(2,245)

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FIDUCIARY FUNDS

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INVESTMENT TRUST FUNDS

Investment trust funds account for and report the external portion of the Investment Pool and individual investment accounts provided to other, legally separate entities that are not part of the State financial reporting entity.

The following activities are included in the investment trust funds:

State Treasurer Investment Pool
Public Hospitals Investment Account

COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS

June 30, 2015 *Exhibit F-1*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Assets			
Cash and cash equivalents	$ 8,847	$ —	$ 8,847
Investments:			
State Treasurer investment pool	870,612	237,536	1,108,148
Securities lending collateral	51,092	11	51,103
Receivables:			
Interest receivable	1,385	—	1,385
Total Assets	931,936	237,547	1,169,483
Liabilities			
Obligations under securities lending	51,092	11	51,103
Net Position			
Restricted for:			
Pool participants	880,844	—	880,844
Individuals, organizations, and other governments	—	237,536	237,536
Total Net Position	$ 880,844	$ 237,536	$ 1,118,380

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS

For the Fiscal Year Ended June 30, 2015 *Exhibit F-2*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Additions			
Investment Income:			
Investment earnings	$ 12,161	$ 14,244	$ 26,405
Less investment expenses	(582)	(664)	(1,246)
Net investment income	11,579	13,580	25,159
Pool share transactions:			
Reinvestment of dividends	11,455	13,532	24,987
Net share purchases/(redemptions)	(31,638)	78,402	46,764
Net pool share transactions	(20,183)	91,934	71,751
Total Additions	(8,604)	105,514	96,910
Deductions			
Distributions paid and payable	11,455	13,532	24,987
Change in net position	(20,059)	91,982	71,923
Net position — July 1	900,903	145,554	1,046,457
Net position — June 30	$ 880,844	$ 237,536	$ 1,118,380

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PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds account for and report resources held in trust in which the principal and income benefit individuals, private organizations, or other governments.

The following activities are included in the private purpose trust funds:

Deposits of Insurance Carriers Fund
Administrative Office of the Courts Trust Fund
Departmental Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS

June 30, 2015 *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	$ 402	$ 115,388	$ 7,207	$ 122,997
Investments:				
U.S. government securities	—	311	—	311
Certificates of deposit	—	44,489	—	44,489
State Treasurer investment pool	—	—	6,978	6,978
Securities lending collateral	28	—	1,169	1,197
Receivables:				
Interest receivable	—	—	3	3
Sureties	871,045	—	—	871,045
Total Assets	871,475	160,188	15,357	1,047,020
Liabilities				
Obligations under securities lending	28	—	1,169	1,197
Net Position				
Restricted for:				
Individuals, organizations, and other governments	871,447	160,188	14,188	1,045,823
Total Net Position	$ 871,447	$ 160,188	$ 14,188	$ 1,045,823

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

For the Fiscal Year Ended June 30, 2015 *Exhibit F-4*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Additions				
Contributions:				
Trustee deposits	$ 3,584	$ 107,665	$ 35	$ 111,284
Investment Income:				
Investment earnings	3	1,639	210	1,852
Less investment expenses	—	—	(3)	(3)
Net investment income	3	1,639	207	1,849
Total Additions	3,587	109,304	242	113,133
Deductions				
Payments in accordance with trust arrangements	5,829	99,566	250	105,645
Change in net position	(2,242)	9,738	(8)	7,488
Net position — July 1	873,689	150,450	14,196	1,038,335
Net position — June 30	$ 871,447	$ 160,188	$ 14,188	$ 1,045,823

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AGENCY FUNDS

Agency funds account for and report resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

The following activities are included in the agency funds:

Local Sales Tax Collections
Clerks of Court
Intra-Entity Investment Fund Deposits
Insurers in Receivership
Vehicle Property Tax Collections
Departmental Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2015

(Dollars in Thousands)

	Balance, July 1, 2014	Additions	Deductions	Balance, June 30, 2015
Local Sales Tax Collections				
Assets				
Cash and cash equivalents	$ 428,668	$ 2,732,696	$ (2,692,280)	$ 469,084
Receivables:				
Taxes receivable	149,500	158,800	(149,500)	158,800
Due from other funds	26,170	26,987	(26,170)	26,987
Total Assets	$ 604,338	$ 2,918,483	$ (2,867,950)	$ 654,871
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 604,338	$ 2,918,483	$ (2,867,950)	$ 654,871
Total Liabilities	$ 604,338	$ 2,918,483	$ (2,867,950)	$ 654,871
Clerks of Court				
Assets				
Cash and cash equivalents	$ 106,927	$ 1,581,565	$ (1,600,344)	$ 88,148
Receivables:				
Accounts receivable	387	4,877	(4,852)	412
Sureties	100,536	40,407	(42,318)	98,625
Total Assets	$ 207,850	$ 1,626,849	$ (1,647,514)	$ 187,185
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 5,008	$ 100,720	$ (100,758)	$ 4,970
Funds held for others	202,842	454,566	(475,193)	182,215
Total Liabilities	$ 207,850	$ 555,286	$ (575,951)	$ 187,185
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents	$ 4,183,402	$ —	$ (391,572)	$ 3,791,830
Investments:				
State Treasurer investment pool	43,240	957	—	44,197
Securities lending collateral	529,430	—	(264,761)	264,669
Total Assets	$ 4,756,072	$ 957	$ (656,333)	$ 4,100,696
Liabilities				
Obligations under securities lending	$ 530,766	$ —	$ (266,097)	$ 264,669
Funds held for others	4,225,306	—	(389,279)	3,836,027
Total Liabilities	$ 4,756,072	$ —	$ (655,376)	$ 4,100,696
Insurers in Receivership				
Assets				
Cash and cash equivalents	$ 48,711	$ 1,363	$ —	$ 50,074
Investments:				
Corporate bonds	2,389	—	(697)	1,692
Receivables:				
Accounts receivable	581	520	—	1,101
Total Assets	$ 51,681	$ 1,883	$ (697)	$ 52,867
Liabilities				
Funds held for others	$ 51,681	$ 1,883	$ (697)	$ 52,867
Total Liabilities	$ 51,681	$ 1,883	$ (697)	$ 52,867

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2015 *Exhibit F-5*

(Dollars in Thousands)

	Balance, July 1, 2014	Additions	Deductions	Balance, June 30, 2015
Vehicle Property Tax Collections				
Assets				
Cash and cash equivalents	$ 63,194	$ 770,662	$ (763,689)	$ 70,167
Securities lending collateral	7,625	—	(3,127)	4,498
Receivables:				
Interest receivable	21	25	(21)	25
Total Assets	$ 70,840	$ 770,687	$ (766,837)	$ 74,690
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 63,031	$ 896,477	$ (889,316)	$ 70,192
Obligations under securities lending	7,809	—	(3,311)	4,498
Total Liabilities	$ 70,840	$ 896,477	$ (892,627)	$ 74,690
Departmental Funds				
Assets				
Cash and cash equivalents	$ 40,272	$ 422,713	$ (432,657)	$ 30,328
Investments:				
Certificates of deposit	525	—	—	525
Securities lending collateral	3,655	—	(2,124)	1,531
Receivables:				
Accounts receivable	7,501	4,047	(7,407)	4,141
Due from other funds	11,677	11,266	—	22,943
Total Assets	$ 63,630	$ 438,026	$ (442,188)	$ 59,468
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 250	$ 2,082	$ (2,327)	$ 5
Intergovernmental payable	26,685	345,935	(341,656)	30,964
Obligations under securities lending	3,662	—	(2,131)	1,531
Deposits payable	1,960	3,190	(3,296)	1,854
Funds held for others	31,073	68,273	(74,232)	25,114
Total Liabilities	$ 63,630	$ 419,480	$ (423,642)	$ 59,468
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 4,871,174	$ 5,508,999	$ (5,880,542)	$ 4,499,631
Investments:				
Corporate bonds	2,389	—	(697)	1,692
Certificates of deposit	525	—	—	525
State Treasurer investment pool	43,240	957	—	44,197
Securities lending collateral	540,710	—	(270,012)	270,698
Receivables:				
Taxes receivable	149,500	158,800	(149,500)	158,800
Accounts receivable	8,469	9,444	(12,259)	5,654
Interest receivable	21	25	(21)	25
Due from other funds	37,847	38,253	(26,170)	49,930
Sureties	100,536	40,407	(42,318)	98,625
Total Assets	$ 5,754,411	$ 5,756,885	$ (6,381,519)	$ 5,129,777
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 250	$ 2,082	$ (2,327)	$ 5
Intergovernmental payable	699,062	4,261,615	(4,199,680)	760,997
Obligations under securities lending	542,237	—	(271,539)	270,698
Deposits payable	1,960	3,190	(3,296)	1,854
Funds held for others	4,510,902	524,722	(939,401)	4,096,223
Total Liabilities	$ 5,754,411	$ 4,791,609	$ (5,416,243)	$ 5,129,777

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COMPONENT UNITS

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COMPONENT UNITS – DISCRETELY PRESENTED

The component units listed below are legally separate entities for which the State is financially accountable.

Nonmajor component units are comprised of the following entities:

State Education Assistance Authority
N.C. Housing Finance Agency
The Golden LEAF, Inc.
N.C. State Ports Authority
N.C. Global TransPark Authority
North Carolina Railroad Company
North Carolina Biotechnology Center
N.C. Partnership for Children, Inc.
Centennial Authority
Economic Development Partnership of N.C.

This section also includes a statement of cash flows for the State Health Plan, a major component unit, which does not issue separate financial statements.

COMBINING STATEMENT OF NET POSITION
NONMAJOR COMPONENT UNITS

June 30, 2015
(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	$ 53,798	$ 8,108	$ 424	$ 11,614	$ 6,432
Investments	—	3,110	940,424	11,934	—
Receivables, net	42,841	22,903	5	5,468	25
Due from component units	1,185	—	—	—	—
Due from primary government	—	82,100	—	—	—
Inventories	—	—	—	730	—
Prepaid items	7	—	101	2,318	—
Notes receivable, net	2,107,059	941,874	203	—	—
Restricted/designated cash and cash equivalents	405,385	328,820	—	3,214	—
Restricted investments	1,687,017	88,913	—	—	—
Capital assets-nondepreciable	5,000	856	904	60,707	22,665
Capital assets-depreciable, net	124	3,230	2,680	210,728	141,664
Total Assets	4,302,416	1,479,914	944,741	306,713	170,786
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives	—	4,405	—	45	—
Deferred outflows for pensions	214	740	—	1,225	61
Total Deferred Outflows of Resources	214	5,145	—	1,270	61
Liabilities					
Accounts payable and accrued liabilities	20,561	3,326	62,608	3,420	327
Interest payable	2,519	13,995	—	1,299	17
Due to component units	—	—	6,845	—	—
Due to primary government	1	—	—	18	1
Unearned revenue	—	30,984	—	409	84
Advance from primary government	—	—	—	1,126	2,940
Deposits payable	—	3,504	—	—	—
Funds held for others	1,689,573	—	—	—	3
Hedging derivatives liability	—	4,405	—	45	—
Long-term liabilities:					
Due within one year	243,479	28,164	20	3,011	289
Due in more than one year	1,660,901	713,014	22	89,789	3,272
Total Liabilities	3,617,034	797,392	69,495	99,117	6,933
Deferred Inflows of Resources					
Deferred state aid	118,451	2,893	—	—	—
Deferred inflows for pensions	590	2,187	—	3,481	204
Total Deferred Inflows of Resources	119,041	5,080	—	3,481	204
Net Position					
Net investment in capital assets	5,124	4,086	3,584	180,636	157,690
Restricted for:					
Expendable:					
Higher education	476,709	—	—	—	—
Health and human services	—	—	—	—	—
Economic development	—	667,999	514	3,272	—
Unrestricted	84,722	10,502	871,148	21,477	6,020
Total Net Position	$ 566,555	$ 682,587	$ 875,246	$ 205,385	$ 163,710

Exhibit G-1

North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	Economic Development Partnership of N.C.	Total
$ 4,928	$ 22,957	$ 1,764	$ 2,930	$ 1,859	$ 114,814
—	451	521	—	—	956,440
3,649	927	980	2,866	35	79,699
—	—	—	—	—	1,185
—	—	—	—	—	82,100
—	—	—	—	—	730
26	182	133	21	606	3,394
—	3,433	—	—	—	3,052,569
80,647	—	24	20,624	—	838,714
—	—	—	4,520	—	1,780,450
18,799	—	—	222	—	109,153
57,908	10,079	147	110,237	94	536,891
165,957	38,029	3,569	141,420	2,594	7,556,139
—	—	—	—	—	4,450
—	—	—	14	—	2,254
—	—	—	14	—	6,704
5,562	8,446	947	556	311	106,064
—	—	—	—	—	17,830
—	—	—	—	—	6,845
—	—	—	—	—	20
11,251	—	823	456	33	44,040
—	—	—	—	—	4,066
48	—	—	—	—	3,552
—	—	—	—	—	1,689,576
—	—	—	—	—	4,450
—	17	42	4,536	237	279,795
—	3	109	19,630	59	2,486,799
16,861	8,466	1,921	25,178	640	4,643,037
—	—	—	—	—	121,344
—	—	—	42	—	6,504
—	—	—	42	—	127,848
76,707	10,059	147	86,293	—	524,326
—	—	—	—	—	476,709
—	—	37	—	—	37
80,625	648	—	24,652	—	777,710
(8,236)	18,856	1,464	5,269	1,954	1,013,176
$ 149,096	$ 29,563	$ 1,648	$ 116,214	$ 1,954	$ 2,791,958

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2015

(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	$ 239,942	$ 370,752	$ 31,912	$ 40,729	$ 8,435
Program revenues:					
Charges for services	58,187	336,244	1	43,796	1,819
Operating grants and contributions:					
State aid - program	79,482	63,382	—	—	—
Other operating grants and contributions	116,213	—	21,673	100	17
Capital grants and contributions:					
State capital aid	—	—	—	74	—
Other capital grants and contributions	—	—	—	240	357
Net program (expense) revenue	13,940	28,874	(10,238)	3,481	(6,242)
Non-tax general revenues:					
State aid - general	—	18,242	—	—	740
Miscellaneous	—	—	8	—	—
Total non-tax general revenues	—	18,242	8	—	740
Change in net position	13,940	47,116	(10,230)	3,481	(5,502)
Net position — July 1, as restated	552,615	635,471	885,476	201,904	169,212
Net position — June 30	$ 566,555	$ 682,587	$ 875,246	$ 205,385	$ 163,710

Exhibit G-2

North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	Economic Development Partnership of N.C.	Total
$ 20,001	$ 15,205	$ 102,723	$ 12,687	$ 12,924	$ 855,310
17,877	344	—	5,176	54	463,498
—	—	93,259	—	—	236,123
3,392	1,233	4,147	7,882	1,148	155,805
—	—	—	—	—	74
—	—	—	3,221	—	3,818
1,268	(13,628)	(5,317)	3,592	(11,722)	4,008
—	13,600	5,014	—	13,611	51,207
860	387	222	102	65	1,644
860	13,987	5,236	102	13,676	52,851
2,128	359	(81)	3,694	1,954	56,859
146,968	29,204	1,729	112,520	—	2,735,099
$ 149,096	$ 29,563	$ 1,648	$ 116,214	$ 1,954	$ 2,791,958

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2015 *Exhibit G-3*

(Dollars in Thousands)

	State Health Plan
Cash Flows From Operating Activities	
Receipts from customers	$ 2,987,604
Payments to suppliers	(326,849)
Payments to employees	(3,800)
Payments for claims	(2,667,030)
Other payments	(168)
Net cash flows used for operating activities	(10,243)
Cash Provided From Noncapital Financing Activities	
Grant receipts	70,739
Cash Provided From Investment Activities	
Investment earnings	5,066
Net increase in cash and cash equivalents	65,562
Cash and cash equivalents at July 1	958,558
Cash and cash equivalents at June 30	$ 1,024,120
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating loss	$ (69,517)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation	4
Pension expense	108
(Increases) decreases in assets and deferred outflows:	
Receivables	(3,351)
Deferred outflows for pensions	(268)
Increases (decreases) in liabilities:	
Accounts payable and accrued liabilities	5,023
Due to primary government	(1)
Compensated absences	9
Unearned revenue	5,393
Medical claims payable	52,357
Net cash used for operations	$ (10,243)

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.

Contents

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 2006-2015

(Dollars in Thousands)

	2015	2014	2013	2012	2011
Governmental Activities:					
Net investment in capital assets.......................	$ 43,612,584	$ 42,139,297	$ 40,394,260	$ 38,705,712	$ 37,338,472
Restricted...	1,061,817	861,988	852,901	703,781	730,021
Unrestricted..	(1,812,947)	(3,398,663)	(3,042,454)	(3,594,082)	(3,792,148)
Total Governmental Activities Net Position	$ 42,861,454	$ 39,602,622	$ 38,204,707	$ 35,815,411	$ 34,276,345
Business-type Activities:					
Net investment in capital assets.......................	$ 534,380	$ 442,100	$ 410,031	$ 391,831	$ 294,172
Restricted...	1,256	1,940	995	1,468	3,131
Unrestricted..	2,630,313	1,032,581	(250,294)	(661,669)	(766,888)
Total Business-type Activities Net Position...........	$ 3,165,949	$ 1,476,621	$ 160,732	$ (268,370)	$ (469,585)
Primary Government:					
Net investment in capital assets.......................	$ 44,146,964	$ 42,581,397	$ 40,804,291	$ 39,097,543	$ 37,632,644
Restricted...	1,063,073	863,928	853,896	705,249	733,152
Unrestricted..	817,366	(2,366,082)	(3,292,748)	(4,255,751)	(4,559,036)
Total Primary Government Net Position...............	$ 46,027,403	$ 41,079,243	$ 38,365,439	$ 35,547,041	$ 33,806,760

Table 1

2010	2009	2008	2007	2006
$ 35,658,528	$ 34,101,091	$ 30,984,578	$ 29,715,168	$ 28,052,926
704,715	714,014	877,915	1,094,352	890,602
(4,160,273)	(4,427,748)	(1,856,140)	(993,478)	(1,310,486)
$ 32,202,970	$ 30,387,357	$ 30,006,353	$ 29,816,042	$ 27,633,042
$ 173,375	$ 73,924	$ 32,063	$ 26,673	$ 26,975
1,081,220	1,003,613	1,773,018	1,612,943	1,286,477
(1,626,663)	(201,590)	91,219	74,860	75,108
$ (372,068)	$ 875,947	$ 1,896,300	$ 1,714,476	$ 1,388,560
$ 35,831,903	$ 34,175,015	$ 31,016,641	$ 29,741,841	$ 28,079,901
1,785,935	1,717,627	2,650,933	2,707,295	2,177,079
(5,786,936)	(4,629,338)	(1,764,921)	(918,618)	(1,235,378)
$ 31,830,902	$ 31,263,304	$ 31,902,653	$ 31,530,518	$ 29,021,602

CHANGES IN NET POSITION

For the Fiscal Years 2006-2015
(Dollars in Thousands)

		2015	2014	2013	2012	2011
Expenses						
Governmental Activities:						
General government		$ 1,159,012	$ 1,080,982	$ 1,034,277	$ 937,353	$ 1,209,923
Primary and secondary education		10,224,967	9,772,994	9,830,464	9,760,909	10,024,775
Higher education		3,859,549	3,901,543	3,986,465	4,238,695	4,350,475
Health and human services		18,705,192	17,812,888	18,313,335	17,752,493	16,859,438
Economic development		408,289	420,464	595,248	667,106	744,703
Environment and natural resources		490,185	484,718	515,496	470,965	596,227
Public safety, corrections, and regulation		2,895,244	2,911,146	2,907,980	2,976,448	2,729,418
Transportation		2,673,649	2,607,663	2,490,991	2,400,599	2,177,062
Agriculture		165,735	191,242	187,608	188,985	114,275
Interest on long-term debt		216,519	216,521	233,606	282,542	306,696
Total Governmental Activities Expenses		40,798,341	39,400,161	40,095,470	39,676,095	39,112,992
Business-type Activities:						
Unemployment Compensation		349,069	700,190	2,496,445	3,283,900	4,420,762
N.C. State Lottery	[1]	1,450,494	1,341,219	1,215,944	1,141,941	1,028,536
EPA Revolving Loan		22,965	27,789	23,711	14,026	42,897
N.C. Turnpike Authority	[3]	89,004	88,278	95,897	17,565	4,940
Regulatory programs		90,397	86,253	76,447	69,980	80,454
Insurance programs		21,632	18,427	17,591	38,701	36,885
North Carolina State Fair		14,975	13,957	13,441	13,030	13,595
Other business-type activities		12,364	12,917	13,400	12,084	9,148
Total Business-type Activities Expenses		2,050,900	2,289,030	3,952,876	4,591,227	5,637,217
Total Primary Government Expenses		$ 42,849,241	$ 41,689,191	$ 44,048,346	$ 44,267,322	$ 44,750,209
Program Revenues						
Governmental Activities:						
Charges for Services:						
Transportation		$ 742,586	$ 730,048	$ 706,231	$ 685,596	$ 709,064
Public safety, corrections, and regulation		602,869	580,817	604,447	594,377	540,280
General government		253,506	242,809	228,054	218,011	195,286
Other activities		705,181	648,411	662,172	598,279	631,464
Operating grants and contributions		16,152,680	15,261,306	15,767,596	15,605,227	15,632,256
Capital grants and contributions		942,238	1,260,306	1,010,889	977,961	1,198,549
Total Governmental Activities Program Revenues		19,399,060	18,723,697	18,979,389	18,679,451	18,906,899
Business-type Activities:						
Charges for services:						
Unemployment Compensation		1,552,934	1,651,108	1,535,068	1,473,576	1,294,104
N.C. State Lottery	[1]	1,977,486	1,844,636	1,695,009	1,601,837	1,464,639
EPA Revolving Loan		23,955	22,603	19,490	23,366	20,388
N.C. Turnpike Authority	[3]	30,710	24,725	13,499	664	—
Regulatory programs		96,155	90,938	78,557	70,732	80,008
Insurance programs		18,641	10,780	19,275	17,547	16,046
North Carolina State Fair		14,985	14,828	14,506	14,470	14,915
Other business-type activities		11,239	10,781	10,681	10,578	10,771
Operating grants and contributions		409,351	347,108	1,423,525	1,966,023	2,998,116
Capital grants and contributions		21,251	11,942	21,109	15,436	11,687
Total Business-type Activities Program Revenues		4,156,707	4,029,449	4,830,719	5,194,229	5,910,674
Total Primary Government Program Revenues		$ 23,555,767	$ 22,753,146	$ 23,810,108	$ 23,873,680	$ 24,817,573
Net (Expense) Revenue						
Governmental Activities		$ (21,399,281)	$ (20,676,464)	$ (21,116,081)	$ (20,996,644)	$ (20,206,093)
Business-type Activities		2,105,807	1,740,419	877,843	603,002	273,457
Total Primary Government Net Expense		$ (19,293,474)	$ (18,936,045)	$ (20,238,238)	$ (20,393,642)	$ (19,932,636)

Table 2

2010	2009	2008	2007	2006
$ 1,065,584	$ 1,429,407	$ 1,232,088	$ 1,264,132	$ 1,039,513
9,830,183	10,079,691	10,631,920	9,126,169	8,215,445
4,232,266	3,951,862	4,207,410	4,500,010	3,472,024
16,762,910	16,172,213	14,951,585	14,117,426	13,491,119
916,224	636,431	746,471	624,106	647,434
526,178	717,666	753,909	672,726	676,049
2,616,888	2,741,308	2,627,007	2,465,974	2,304,900
1,998,234	138,007	1,941,207	2,019,942	1,781,865
118,847	110,268	119,297	88,970	112,467
281,058	289,211	304,020	273,123	264,287
38,348,372	36,266,064	37,514,914	35,152,578	32,005,103
5,568,561	3,255,448	1,002,866	864,981	849,945
994,168	877,403	712,718	559,373	153,125
30,940	7,868	12,454	14,228	11,414
4,990	3,847	—	—	—
67,330	37,644	34,791	31,144	28,526
13,118	14,986	17,556	23,892	16,051
12,794	13,803	12,828	11,433	10,497
9,563	7,324	6,364	5,686	10,255
6,701,464	4,218,323	1,799,577	1,510,737	1,079,813
$ 45,049,836	$ 40,484,387	$ 39,314,491	$ 36,663,315	$ 33,084,916
$ 705,025	$ 740,353	$ 777,059	$ 782,405	$ 725,311
511,912	510,159	501,837	429,824	411,188
356,602	329,507	365,920	480,378	339,053
502,204	535,100	536,419	467,769	512,449
15,837,802	14,005,529	12,301,356	12,026,012	11,503,844
711,433	1,035,742	826,646	758,910	914,090
18,624,978	17,156,390	15,309,237	14,945,298	14,405,935
1,045,288	1,076,294	1,091,856	1,099,959	1,101,357
1,424,458	1,288,102	1,053,131	866,195	216,906
19,874	17,370	17,297	16,400	15,237
—	—	—	—	—
71,355	33,982	37,163	29,347	33,550
16,320	17,208	16,991	13,901	14,860
12,639	12,520	15,029	11,617	12,581
8,678	8,365	6,498	5,887	7,973
3,251,109	1,110,849	83,695	106,000	64,085
7,771	41,398	6,589	142	258
5,857,492	3,606,088	2,328,249	2,149,448	1,466,807
$ 24,482,470	$ 20,762,478	$ 17,637,486	$ 17,094,746	$ 15,872,742
$ (19,723,394)	$ (19,109,674)	$ (22,205,677)	$ (20,207,280)	$ (17,599,168)
(843,972)	(612,235)	528,672	638,711	386,994
$ (20,567,366)	$ (19,721,909)	$ (21,677,005)	$ (19,568,569)	$ (17,212,174)

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

[2] 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.

[3] 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 2006-2015
(Dollars in Thousands)

	2015	2014	2013	2012	2011
General Revenues and Other Changes in Net Position					
Governmental Activities:					
Taxes:					
Individual income tax	$ 11,288,542	$ 10,576,575	$ 11,113,597	$ 10,459,307	$ 10,020,535
Corporate income tax	1,272,879	1,318,091	1,194,850	1,233,989	1,132,931
Sales and use tax	6,869,090	5,839,362	5,556,484	5,530,046	6,172,377
Gasoline tax	1,945,462	1,907,803	1,889,439	1,892,163	1,675,476
Franchise tax	556,786	888,815	845,130	804,973	794,091
Highway use tax	653,931	596,801	555,581	506,211	469,811
Insurance tax	529,927	476,402	540,844	479,755	501,032
Beverage tax	360,280	342,784	330,918	322,190	311,809
Inheritance tax	-	-	113,721	57,839	24,184
Tobacco products tax [2]	279,795	273,426	287,340	293,597	291,699
Other taxes	288,340	348,938	305,726	294,516	301,217
Tobacco settlement	137,910	139,169	213,078	146,135	131,318
Unrestricted investment earnings	20,139	19,452	13,621	(56,055)	32,980
Miscellaneous	34,167	192,002	44,837	41,960	45,014
Contributions to permanent funds	4,382	3,861	2,834	3,297	3,188
Transfers	416,483	429,810	448,733	401,740	371,424
Total Governmental Activities	24,658,113	23,353,291	23,456,733	22,411,663	22,279,086
Business-type Activities:					
Miscellaneous	4	3	7	—	3
Transfers	(416,483)	(429,810)	(448,733)	(401,740)	(371,424)
Total Business-type Activities	(416,479)	(429,807)	(448,726)	(401,740)	(371,421)
Total Primary Government	$ 24,241,634	$ 22,923,484	$ 23,008,007	$ 22,009,923	$ 21,907,665
Change in Net Position					
Governmental Activities	$ 3,258,832	$ 2,676,827	$ 2,340,652	$ 1,415,019	$ 2,072,993
Business-type Activities	1,689,328	1,310,612	429,117	201,262	(97,964)
Total Primary Government	$ 4,948,160	$ 3,987,439	$ 2,769,769	$ 1,616,281	$ 1,975,029

Table 2

2010	2009	2008	2007	2006
$ 9,345,441	$ 8,661,565	$ 10,676,156	$ 10,739,562	$ 9,336,745
1,252,800	997,206	1,357,670	1,466,148	1,306,193
5,916,119	4,911,656	5,159,453	5,108,456	5,033,040
1,557,430	1,523,496	1,579,847	1,601,764	1,514,626
904,651	799,113	738,741	671,151	628,029
439,506	440,749	566,132	607,511	577,237
506,990	500,438	505,936	487,081	442,297
295,383	263,553	258,193	245,990	233,315
71,731	103,811	158,178	162,746	133,158
278,406	242,071	249,664	241,687	—
321,945	316,819	339,109	330,888	482,552
145,539	175,838	168,583	144,075	140,969
28,645	66,863	238,239	211,663	123,170
37,253	62,799	49,345	47,015	37,248
3,101	3,248	3,894	3,928	4,674
434,067	422,399	346,848	312,810	67,978
21,539,007	19,491,624	22,395,988	22,382,475	20,061,231
—	—	—	15	4
(434,067)	(422,399)	(346,848)	(312,810)	(67,978)
(434,067)	(422,399)	(346,848)	(312,795)	(67,974)
$ 21,104,940	$ 19,069,225	$ 22,049,140	$ 22,069,680	$ 19,993,257
$ 1,815,613	$ 381,950	$ 190,311	$ 2,175,195	$ 2,462,063
(1,278,039)	(1,034,634)	181,824	325,916	319,020
$ 537,574	$ (652,684)	$ 372,135	$ 2,501,111	$ 2,781,083

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2006-2015

(Dollars in Thousands)

	2015	2014	2013	2012	2011 [1]	2010
General Fund						
Reserved	$ —	$ —	$ —	$ —	$ —	$ 224,358
Unreserved	—	—	—	—	—	(338,738)
Nonspendable	83,079	81,458	75,153	81,395	93,482	—
Restricted	173,575	83,885	130,411	140,032	81,815	—
Committed	1,447,011	911,720	910,629	889,584	1,115,156	—
Assigned	116,705	283,280	30,957	—	—	—
Unassigned	688,173	193,482	150,713	(62,042)	(107,348)	—
Total General Fund	$ 2,508,543	$ 1,553,825	$ 1,297,863	$ 1,048,969	$ 1,183,105	$ (114,380)
All Other Governmental Funds						
Reserved	$ —	$ —	$ —	$ —	$ —	$ 994,418
Unreserved, reported in:						
Special revenue funds	—	—	—	—	—	2,321,665
Capital projects funds	—	—	—	—	—	10,311
Permanent funds	—	—	—	—	—	7,141
Nonspendable	211,883	216,528	210,307	218,674	198,830	—
Restricted	1,252,733	768,448	923,253	807,205	896,515	—
Committed	1,863,951	1,713,790	1,409,097	1,402,286	1,343,103	—
Assigned	1,011	—	778	496	—	—
Unassigned	—	—	—	(1,311)	(1,627)	—
Total all other governmental funds	$ 3,329,578	$ 2,698,766	$ 2,543,435	$ 2,427,350	$ 2,436,821	$ 3,333,535

Table 3

2009	2008	2007	2006
$ 189,288	$ 172,909	$ 208,932	$ 155,948
(966,861)	1,505,230	2,397,786	1,810,452
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
$ (777,573)	$ 1,678,139	$ 2,606,718	$ 1,966,400
$ 1,209,650	$ 1,182,723	$ 1,014,757	$ 951,701
2,337,370	2,517,529	2,524,643	2,204,146
(2,738)	280,939	224,991	115,060
1,907	2,312	1,598	1,518
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
$ 3,546,189	$ 3,983,503	$ 3,765,989	$ 3,272,425

[1] For fiscal year ended June 30, 2011, GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented. Fiscal years prior to 2011 have not been restated.

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2006-2015

(Dollars in Thousands)

		2015	2014	2013	2012	2011
Revenues						
Taxes		$ 24,032,537	$ 22,605,977	$ 22,769,317	$ 21,816,945	$ 21,689,379
Federal funds		16,509,242	15,967,504	16,161,532	15,626,696	14,215,501
Local funds		195,962	173,727	186,327	188,405	186,944
Investment earnings		43,574	76,144	41,259	50,612	100,104
Interest earnings on loans		2,864	1,797	3,684	3,347	4,104
Sales and services		318,411	312,872	304,179	292,705	276,663
Rental and lease of property		22,400	23,791	27,559	26,574	25,165
Fees, licenses and fines		1,644,450	1,597,517	1,574,727	1,547,973	1,496,606
Tobacco settlement		138,622	139,937	211,162	140,979	138,256
Contributions, gifts, and grants		121,750	99,672	74,857	65,954	109,170
Funds escheated		165,062	106,760	112,671	68,207	111,481
Federal recovery funds		209,492	236,869	273,192	658,570	2,265,393
Miscellaneous		174,507	328,781	184,763	146,204	158,945
Total revenues		43,578,873	41,671,348	41,925,229	40,633,171	40,777,711
Expenditures						
Current:						
General government		1,142,163	1,036,518	986,897	901,654	1,000,101
Primary and secondary education		10,213,160	9,749,844	9,818,572	9,738,102	10,000,438
Higher education		3,850,111	3,900,386	3,986,575	4,237,649	4,350,683
Health and human services		18,781,793	17,901,879	18,416,229	17,854,993	16,914,978
Economic development		412,783	442,364	571,037	667,057	741,447
Environment and natural resources		454,602	456,099	455,894	429,882	603,112
Public safety, corrections, and regulation		2,931,696	2,896,879	2,899,287	2,937,742	2,751,665
Transportation		4,044,532	4,152,663	3,992,200	3,801,196	3,660,069
Agriculture		178,282	179,848	171,196	181,387	113,153
Capital outlay		113,689	127,634	182,107	231,688	364,121
Debt service:						
Principal retirement	[1]	562,820	553,016	1,261,685	514,195	1,026,602
Interest and fees	[1]	303,433	331,451	461,739	346,540	393,432
Debt issuance costs		3,048	1,193	6,605	7,074	4,178
Total expenditures		42,992,112	41,729,774	43,210,023	41,849,159	41,923,979
Excess revenues over (under) expenditures		586,761	(58,426)	(1,284,794)	(1,215,988)	(1,146,268)
Other Financing Sources (Uses)						
Bonds issued		231,360	—	—	—	—
Special Indebtedness issued		—	—	250,000	400,000	500,000
GARVEE bonds issued		264,930	—	—	179,540	—
Refunding bonds issued		299,020	506,255	1,320,970	367,350	774,745
Other debt issued		1,622	6,733	9,380	15,825	—
Premium on debt issued		117,506	98,789	284,428	131,892	191,035
Payments to refunded bond escrow agent		(349,828)	(603,550)	(748,022)	(428,830)	(370,982)
Capital leases		—	—	—	—	—
Sale of capital assets		13,432	14,939	12,939	12,889	12,118
Insurance recoveries		9,039	15,975	9,925	16,444	7,319
Transfers in		1,044,348	1,233,471	1,112,704	1,115,417	1,131,568
Transfers out		(632,660)	(805,682)	(651,195)	(715,002)	(698,321)
Total other financing sources (uses)		998,769	466,930	1,601,129	1,095,525	1,547,482
Net change in fund balances		$ 1,585,530	$ 408,504	$ 316,335	$ (120,463)	$ 401,214
Debt service as a percentage of noncapital expenditures		2.13%	2.25%	4.24%	2.18%	3.61%

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

Table 4

2010	2009	2008	2007	2006
$ 20,866,244	$ 18,752,674	$ 21,583,521	$ 21,660,719	$ 19,848,465
13,688,504	13,387,611	12,096,354	11,519,927	11,315,722
218,162	349,303	527,325	725,542	610,501
198,633	95,288	620,829	669,297	384,014
4,543	4,989	5,156	5,639	5,405
263,010	279,025	285,848	264,081	260,538
22,122	25,398	27,737	28,722	25,982
1,553,923	1,602,471	1,593,893	1,525,928	1,405,569
146,358	175,187	159,954	142,825	136,453
85,868	137,537	140,575	155,958	118,936
70,381	27,399	74,743	214,500	108,075
2,391,851	1,164,674	N/A	N/A	N/A
164,685	184,839	167,449	122,161	161,052
39,674,284	36,186,395	37,283,384	37,035,299	34,380,712
962,187	1,299,637	1,167,090	1,102,512	963,899
9,850,462	10,111,797	9,879,602	9,087,905	8,211,998
4,225,806	3,951,689	4,207,164	4,405,767	3,471,604
16,816,099	16,222,160	14,918,068	14,203,474	13,318,071
915,038	634,369	747,728	623,038	643,510
554,628	699,273	689,119	662,296	626,442
2,659,683	2,681,833	2,629,567	2,467,763	2,291,596
3,253,258	3,266,494	3,473,718	3,296,301	3,219,549
112,902	111,506	117,380	92,062	110,626
341,058	369,326	346,764	451,716	270,882
498,563	474,323	427,550	417,807	367,946
322,287	326,287	329,813	306,410	288,088
1,310	3,031	2,141	2,456	1,645
40,513,281	40,151,725	38,935,704	37,119,507	33,785,856
(838,997)	(3,965,330)	(1,652,320)	(84,208)	594,856
487,700	—	—	502,745	370,000
—	600,000	275,000	300,000	—
242,250	—	287,565	—	—
371,920	—	—	84,385	—
9,098	1,533	7,425	2,897	30,688
140,876	31,371	21,843	40,867	16,338
(435,870)	—	—	(85,519)	—
—	—	—	799	26,745
11,994	13,079	29,570	15,898	20,131
7,414	8,568	7,317	5,700	6,537
2,330,816	2,727,741	2,567,141	2,340,937	1,784,222
(1,876,502)	(2,309,101)	(2,223,438)	(2,030,162)	(1,718,585)
1,289,696	1,073,191	972,423	1,178,547	536,076
$ 450,699	$ (2,892,139)	$ (679,897)	$ 1,094,339	$ 1,130,932
2.14%	2.12%	2.07%	2.06%	2.08%

[1] For the fiscal year ended June 30, 2011, principal retirement expenditures include payments for a current refunding of $499.87 million and interest and fees expenditures include payments of $49.9 million to terminate interest rate swaps. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 2.24%. For the fiscal year ended June 30, 2013, principal retirement expenditures include payments for a current refunding of $695.96 million and interest and fees expenditures include net payments of $124.91 million to terminate basis swaps and swaptions. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 2.26%.

NA = Data not available

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2006-2015

(Dollars in Thousands)

		2015	2014	2013	2012	2011
TAX REVENUES						[2]
Individual income tax		$ 11,288,542	$ 10,576,575	$ 11,111,462	$ 10,457,217	$ 10,018,039
Corporate income tax		1,270,985	1,331,934	1,224,702	1,194,865	1,139,584
Sales and use tax		6,858,523	5,838,079	5,554,065	5,516,304	6,133,915
Franchise tax		552,221	890,692	857,867	797,596	793,094
Beverage tax		360,138	342,955	330,711	322,194	311,814
Insurance tax		529,927	476,402	521,510	463,574	485,989
Tobacco products tax		277,830	277,736	283,629	293,286	290,743
License tax		46,265	47,612	44,378	45,577	48,924
Real estate conveyance tax		56,028	50,424	—	—	—
Gift tax		212	526	829	181	2,973
Manufacturing tax		40,611	36,743	36,447	36,321	33,013
Other taxes	[3]	37,707	111,347	186,653	128,684	105,570
Total tax revenues		21,318,989	19,981,025	20,152,253	19,255,799	19,363,658
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		15,293,459	14,526,468	14,878,307	14,433,383	12,828,192
Federal recovery funds		84,429	151,757	182,756	421,815	1,791,264
		15,377,888	14,678,225	15,061,063	14,855,198	14,619,456
Local Funds:						
Departmental revenues		161,514	144,826	158,413	164,679	149,545
Investment Earnings:						
Income from General Fund investments		19,282	17,458	12,991	13,533	30,925
Income from securities lending	[1]	554	6,853	9,125	(1,590)	9,527
Departmental revenues		2,045	2,481	2,597	4,014	7,295
Other investment earnings		—	—	—	—	—
		21,881	26,792	24,713	15,957	47,747
Interest Earnings on Loans:						
Departmental revenues		2,192	1,098	2,883	2,445	3,133
Sales and Services:						
Departmental revenues		164,521	158,684	140,603	137,527	130,166
Other non-tax revenues		75	87	80	92	112
		164,596	158,771	140,683	137,619	130,278
Rental and Lease of Property:						
Proceeds from rental and lease of property		103	117	94	85	88
Departmental revenues		10,383	9,966	10,210	10,348	11,523
		10,486	10,083	10,304	10,433	11,611
Fees, Licenses and Fines:						
Court fines and fees		234,510	236,790	250,789	258,968	225,710
Secretary of State service fees		101,792	94,923	89,994	85,062	76,451
Banking and investment fees		7,684	7,568	6,107	6,690	6,092
Permits (ABC Commission)		24,065	15,151	15,138	15,169	15,176
Probation supervision fees		14,231	14,579	15,566	16,134	15,000
Department of Insurance fees		43,392	40,603	39,224	39,100	38,174
DWI service and restoration fees		7,594	8,033	8,590	8,946	8,928
Departmental revenues		304,463	287,233	288,922	252,398	217,191
Fines from tax collection activity		—	—	—	—	—
Other non-tax revenues		7,940	8,895	9,696	8,086	4,750
		745,671	713,775	724,026	690,553	607,472
Tobacco settlement:						
Tobacco settlement		138,622	139,937	211,162	140,979	138,256
Contributions, Gifts and Grants:						
Departmental revenues		39,088	26,441	21,487	20,452	22,591
Other non-tax revenues		—	—	—	—	—
		39,088	26,441	21,487	20,452	22,591
Miscellaneous:						
Local sales and use tax administration		10,519	9,388	8,942	12,177	13,692
Sales tax refunds		2,452	3,716	2,826	3,555	2,432
Departmental revenues		112,647	214,371	104,432	103,317	101,336
Other non-tax revenue		3,072	66,643	9,865	306	4,871
		128,690	294,118	126,065	119,355	122,331
Total non-tax revenues		16,790,628	16,194,066	16,480,799	16,157,670	15,852,420
Total Revenues	[1]	$ 38,109,617	$ 36,175,091	$ 36,633,052	$ 35,413,469	$ 35,216,078

Table 5

2010	2009	2008	2007	2006
$ 9,343,303	$ 8,658,635	$ 10,672,362	$ 10,737,494	$ 9,493,714
1,245,515	941,509	1,265,654	1,357,454	1,208,356
5,871,166	4,872,318	5,125,674	5,078,997	5,007,567
904,959	797,079	739,947	669,235	628,665
295,349	263,553	257,393	245,430	232,987
495,059	483,756	492,699	475,546	431,729
278,296	242,071	249,664	241,687	187,566
41,338	37,716	55,293	48,137	46,035
—	—	—	—	—
12,036	12,294	17,361	15,669	16,251
32,125	32,044	37,661	39,132	11,992
155,537	185,381	233,825	239,589	207,224
18,674,683	16,526,356	19,147,533	19,148,370	17,472,086
12,825,403	11,970,322	10,843,765	10,312,318	9,905,879
1,961,425	1,155,174	—	—	—
14,786,828	13,125,496	10,843,765	10,312,318	9,905,879
153,234	304,270	486,536	665,532	574,300
36,877	103,703	234,478	208,955	122,405
49,733	(46,275)	143,487	216,072	133,098
3,264	4,788	7,829	8,059	7,357
—	3	39	66	44
89,874	62,219	385,833	433,152	262,904
202	261	113	399	—
97,323	104,925	102,307	94,664	94,994
116	143	138	171	184
97,439	105,068	102,445	94,835	95,178
67	83	98	41	57
8,810	8,773	7,908	8,392	7,885
8,877	8,856	8,006	8,433	7,942
216,772	190,995	198,520	159,583	158,646
81,221	64,202	62,035	58,046	55,976
5,955	5,709	5,862	5,466	5,386
15,497	15,230	14,791	14,292	14,269
11,892	16,758	16,892	16,629	16,471
38,271	43,965	42,872	27,991	25,990
7,638	9,310	9,441	8,782	8,420
212,260	184,952	164,813	160,006	157,024
78,090	85,135	93,181	69,758	53,663
6,912	5,340	6,583	4,944	5,173
674,508	621,596	614,990	525,497	501,018
146,358	175,187	159,954	142,825	136,453
20,391	16,179	16,054	17,207	17,632
—	—	—	—	1
20,391	16,179	16,054	17,207	17,633
14,603	15,613	16,982	16,979	14,356
2,134	1,906	3,303	4,124	3,014
117,511	119,107	106,517	56,733	113,171
6,517	22,220	1,566	1,508	1,302
140,765	158,846	128,368	79,344	131,843
16,118,476	14,577,978	12,746,064	12,279,542	11,633,150
$ 34,793,159	$ 31,104,334	$ 31,893,597	$ 31,427,912	$ 29,105,236

[1] For fiscal year ended June 30, 2009, with the investment markets downturn, situations occurred related to securities lending activity that resulted in the State experiencing unrealized losses on the investment of cash collateral received for securities lent. The State had unrecorded unrealized losses and undistributed income that resulted in a restatement.

[2] For fiscal year ended June 30, 2011, GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented. Fiscal years prior to 2011 have not been restated.

[3] SL2013-316 repealed piped natural gas and estate (reported as inheritance) taxes. The collections for these tax types will continue to decline until zero. All years have been adjusted to include piped natural gas tax and inheritance tax balances with other taxes.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2004-2013
(Dollars in thousands)

	2013	2012	2011	2010	2009
Manufacturing	$ 31,985,111	$ 31,238,549	$ 30,377,710	$ 29,699,873	$ 29,510,122
Retail trade	17,092,018	16,347,045	15,637,115	15,496,982	15,147,025
Services	93,191,429	91,121,797	85,329,679	81,552,070	78,866,548
Agricultural, forestry, fishing, etc	806,538	791,207	703,780	732,517	643,137
Government	54,476,789	54,192,759	53,763,209	53,502,814	51,845,777
Construction	14,208,937	13,530,358	12,654,192	12,643,117	13,365,127
Wholesale trade	14,185,713	13,730,275	12,950,067	12,263,722	11,905,593
Transportation and warehousing	7,217,512	7,009,894	6,735,033	6,326,792	6,309,515
Finance and insurance	25,524,437	24,505,121	16,915,755	19,713,104	16,301,355
Mining	240,382	237,571	227,390	194,672	242,908
Utilities	1,727,293	1,567,461	1,538,070	1,480,571	1,390,025
Information	6,354,953	6,170,159	5,852,702	5,692,149	5,885,198
Real estate and rental and leasing	3,874,920	3,618,354	3,534,859	2,965,822	3,017,823
Other	110,067,760	111,622,820	106,129,290	96,474,859	95,759,455
Total	$ 380,953,792	$ 375,683,370	$ 352,348,851	$ 338,739,064	$ 330,189,608
Average effective rate [1]:					
Individual income tax	2.9%	2.8%	2.8%	2.8%	2.6%

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

Source: Bureau of Economic Analysis (Data for 2014 & 2015 is not available.)

Table 6

2008	2007	2006	2005	2004
$ 32,871,445	$ 33,708,253	$ 32,834,516	$ 32,230,784	$ 31,857,816
15,816,828	16,307,937	15,769,397	14,978,714	14,235,507
79,687,058	75,790,896	70,970,420	64,362,719	60,604,639
612,047	625,342	637,685	577,021	594,497
49,804,142	46,508,345	43,134,827	41,072,772	38,463,951
15,732,450	17,059,426	16,656,992	14,876,447	13,708,579
12,734,618	12,778,232	11,873,345	11,071,737	10,439,799
6,709,856	6,829,257	6,668,829	6,445,132	6,291,954
15,362,333	14,842,766	14,514,774	12,845,416	11,525,312
302,581	366,744	365,034	301,933	250,574
1,441,884	1,343,177	1,342,778	1,246,787	1,289,039
6,040,454	5,674,593	5,421,774	5,376,878	5,203,131
3,199,748	2,973,927	3,930,473	3,483,860	3,420,151
92,265,093	85,011,936	77,355,389	72,278,016	65,702,126
$ 332,580,537	$ 319,820,831	$ 301,476,233	$ 281,148,216	$ 263,587,075
3.2%	3.4%	3.1%	2.9%	2.8%

INDIVIDUAL INCOME TAX FILERS AND LIABILITY - CALENDAR YEARS 2004 AND 2013
INDIVIDUAL INCOME TAX RATES- CALENDAR YEARS 2005-2014

Individual Income Tax Filers and Liability by Income Level

North Carolina Taxable Income	Calendar Year 2013 Number of Returns	% of Total	Tax Liability	% of Total	Calendar Year 2004 Number of Returns	% of Total	Tax Liability	% of Total
0 to $15,000....................	2,182,788	49.9%	$ 404,465,194	4.0%	1,915,154	51.8%	$ 428,487,839	5.6%
$15,001 to $25,000.........	550,013	12.6%	613,195,291	6.0%	503,980	13.6%	573,559,493	7.4%
$25,001 to $50,000.........	766,055	17.5%	1,706,089,376	16.6%	679,126	18.4%	1,505,488,492	19.5%
$50,001 to $75,000.........	367,582	8.4%	1,450,327,540	14.1%	298,366	8.1%	1,167,572,328	15.1%
$75,001 to $100,000.......	192,612	4.4%	1,100,181,634	10.7%	125,044	3.4%	712,487,586	9.2%
$100,001 to $200,000.....	226,521	5.2%	2,087,619,310	20.3%	124,333	3.3%	1,140,284,098	14.8%
$200,001 and up.............	85,585	2.0%	2,909,800,464	28.3%	52,807	1.4%	2,193,551,650	28.4%
	4,371,156	100.0%	$ 10,271,678,809	100.0%	3,698,810	100.0%	$ 7,721,431,486	100.0%

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 2013 is the most recent year for which data are available.

Individual Income Tax Rates - Last 10 Years

Calendar Years 2005-2006				
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

Table 7

Individual Income Tax Rates - Last 10 Years

Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 3 Sur tax
Calendar Year 2008				
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:			> $100,000	
Taxable income	$1-$21,250	$21,251-$100,000	up to $250,000 7.75%	**2%**
Tax rate	6%	7%	> 250,000	**3%**
Married - Separate:			> $50,000	
Taxable income	$1-$10,625	$10,626-$50,000	up to $125,000 7.75%	**2%**
Tax rate	6%	7%	>125,000	**3%**
Head of Household:			> $80,000	
Taxable income	$1-$17,000	$17,001-$80,000	up to $200,000 7.75%	**2%**
Tax rate	6%	7%	>200,000	**3%**
Single:			> $60,000	
Taxable income	$1-$12,750	$12,751-$60,000	up to $150,000 7.75%	**2%**
Tax rate	6%	7%	>150,000	**3%**
Calendar Years 2011-2013				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	> $100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	> $50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	> $80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	> $60,000	
Tax rate	6%	7%	7.75%	
Calendar Year 2014				
Married - Joint, Married - Separate, Head of Household, and Single:				
Taxable income	$0			
Tax rate	5.8%			

Income tax rate restrictions - The State Constitution (Article V, section 2(6)) places the following limitation on the income tax: "The rate of tax on incomes shall not in any case exceed ten percent, and there shall be allowed personal exemptions and deductions so that only net incomes are taxed."

Income Tax Surtax Expired - Effective from the tax year beginning on or after January 1, 2011 North Carolina no longer has an income tax surtax.

Income Tax Rate and Base Structure Changes - Effective for tax years beginning on or after January 1, 2014, SL 2013-316 (HB998), *An Act to Simplify the NC Tax Structure and to Reduce Individual and Business Tax Rates* (enacted July 23, 2013) replaces the multi-tiered bracket system with a flat rate structure.

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2006-2015

(Dollars in Thousands)

	2015	2014	2013	2012	2011
General merchandise..........................	$ 33,018,301	$ 30,122,560	$ 29,092,064	$ 28,488,712	$ 26,997,731
Food..	24,663,183	22,892,242	21,961,810	21,188,038	20,063,710
Lumber & building material.................	12,711,938	11,754,511	11,034,483	10,936,526	9,980,618
Automotive..	6,920,644	6,272,460	5,855,515	5,798,630	5,592,481
3% and 4.75% tax group.....................	448,267	456,127	460,461	447,963	429,092
Furniture..	4,160,558	3,887,077	3,739,815	3,599,804	3,416,656
Apparel..	5,140,968	4,707,181	4,554,679	4,343,728	3,962,251
Unclassified...	33,241,081	30,258,424	28,668,485	28,026,651	26,316,563
Total..	$ 120,304,940	$ 110,350,582	$ 105,367,312	$ 102,830,052	$ 96,759,102
Direct sales tax rate	4.75%	4.75%	4.75%	4.75%	5.75%

3% and 4.75% tax group includes manufactured homes, airplanes, boats, and modular homes. In the fiscal years prior to 2015, some manufactured homes were included in the 2% tax group and some modular homes were included in the 2.5% tax group. In the fiscal years prior to 2014, there was an additional 1% tax in this group that included farm, mill, laundry machinery, fuel to farmers, manufacturers, and laundries.

Source: North Carolina Department of Revenue

Table 8

2010	2009	2008	2007	2006
$ 26,700,373	$ 27,281,044	$ 27,545,474	$ 27,814,179	$ 24,141,458
19,986,254	19,982,767	20,427,943	18,856,362	17,333,935
9,896,788	11,728,029	15,125,717	15,625,168	14,749,083
5,371,476	5,365,726	5,782,027	6,138,450	5,416,622
411,092	653,686	878,522	1,350,932	4,551,097
3,442,183	3,854,662	4,746,011	4,733,484	4,387,923
3,756,305	3,628,009	3,901,540	3,753,902	3,481,573
25,056,266	27,197,294	29,529,959	28,314,743	27,490,165
$ 94,620,737	$ 99,691,217	$ 107,937,193	$ 106,587,220	$ 101,551,856
5.75%	4.50%	4.25%	4.25%	4.50%

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2006 & 2015

	2015		2006	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise	$ 1,572,224	22.08%	$ 1,089,865	20.47%
Food	1,178,822	16.56%	783,418	14.71%
Utilities	1,389,050	19.51%	763,746	14.35%
Lumber & building material	605,434	8.50%	665,026	12.49%
Automotive	347,722	4.88%	268,417	5.04%
Furniture	198,590	2.79%	198,490	3.73%
Apparel	244,895	3.44%	157,105	2.95%
Farming	—	0.00%	36,214	0.68%
Unclassified	1,583,553	22.24%	1,362,051	25.58%
Total	$ 7,120,290	100.00%	$ 5,324,332	100.00%
General state sales tax rate	4.75%		4.50%	

Recent Significant Sales Tax Rate and Base Changes

2006-07	Effective June 29, 2007, 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%. Effective January 1, 2007, 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. Effective June 29, 2007, 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.
2007-08	Effective July 1, 2007, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%. Effective July 1, 2007, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds. Effective July 31, 2007, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75%. Effective October 1, 2007, tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%. Effective October 1, 2007, tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Privilege tax sold to manufacturing industry decreased from 1% to 0.7%. Bundled transaction defined to remain compliant with SSTA. Baler twine sold to farmers and bread sold at a bakery thrift store was exempted. State began three year phase-in assumption of the financial nonfederal, nonadministrative Medicaid responsibility for counties that include a 1/2% sales tax rate exchange between local and state governments as well as various measures to ensure the local governments are held harmless (protected from revenue loss) as a result of the Medicaid swap legislation. Effective April 1, 2008, combined general rate raised from 6.75% to 7%.
2008-09	Retroactive for purchases made on or after January 1, 2004. Refund provision extended to University Affiliated Nonprofit Organizations that procure, design, construct, or provide facilities to or for use by, a constituent institution of the University of North Carolina. Effective July 1, 2008, tax on electricity sold to farmers and manufacturers (1.8%) repealed. New tax rate is 1.4%. Refund provision expanded to include certain industrial facilities-solar electricity generating materials manufacturing industry. Refund provision expanded to include volunteer fire department or volunteer emergency medical services squad. Privilege tax on fuel sold to a manufacturing industry decreased from 0.7% to 0.5%. Effective July 16, 2008, new sales and use tax holiday for Energy Star qualified products (1st Friday in November through following Sunday). Refund provision to interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2011 (previously January 1, 2009). Effective August 1, 2008, exemption for tangible personal property (tpp) purchased with a client assistance debit card issued for disaster assistance relief by qualified entities. Exemption for interior design services provided in conjunction with the sale of tpp. Effective October 1, 2008, State general tax raised from 4.25% to 4.5%. Local sales tax rate under Article 44 lowered from 0.5% to 0.25%. Effective January 1, 2009, exemption for bakery items sold without eating utensils by an artisan bakery.

Source: North Carolina Department of Revenue

Table 9

Recent Significant Sales Tax Rate and Base Changes

2009-10	Effective July 1, 2009, 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 August 7, 2009, online sales- remote sales: certain click-through transactions subject to tax. Effective August 27, 2009, 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 September 1, 2009, 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 October 1, 2009, 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 January 1, 2010, 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.
2010-11	Effective July 1, 2010, 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 July 10, 2010, 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 January 1, 2011, 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 June 18, 2011, 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).
2011-12	Effective July 1, 2011, 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 June 20, 2012, refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to taxpayers engaged in analytical services (the greater of 50% of eligible amount of tax paid on tangible personal property consumed or transformed in analytical services or 50% of the amount of tax paid on medical reagents) was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to certain industrial facilities for tax paid on building materials, building supplies, fixtures, and equipment installed in the construction of the facility was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013).
2013-14	Effective January 1, 2014, 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).

Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Table 9

Recent Significant Sales Tax Rate and Base Changes

2013-14 continued	Effective June 1, 2014, 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).
2014-15	Effective July 1, 2014, gross receipts derived from sales of electricity billed on or after July 1, 2014, are subject to the combined general rate of 7% (local governments to share proceeds). Previously, electricity sold for residential purposes was subject to the State 3% preferential rate and electricity sold to laundry and dry cleaning establishments for business use was subject to the State 2.83% preferential rate. The legislation concurrently repeals the utility franchise tax rate of 3.22% applicable to gross receipts from sales of electricity, electric lights, current, or power (local governments shared proceeds). [Gross receipts derived from sales of electricity to a farmer for qualifying farm purposes and to manufacturers for manufacturing facility operation may qualify for exemption.] Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014, are subject to the combined general rate of 7% (local governments to share proceeds). Previously, the piped natural gas excise tax was based on monthly therm volumes of gas received by the end-user (local governments shared proceeds). Special phase-in provision for gas cities: Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014 and before July 1, 2015, received by gas cities and delivered by a gas city to a sales customer or transportation customer of the gas city are subject to a 3.5% rate. [Gross receipts derived from sales of piped natural gas to a farmer for qualifying farm purposes and to manufacturers for manufacturing facility operation may qualify for exemption; additionally, sales of piped natural gas to commercial laundry and pressing or dry cleaning establishments and sales to and purchases by State agencies may qualify for exemption.] Bakery thrift store sales are subject to the State general rate of 4.75% plus applicable local rates (previously exempt.) Annual sales tax holiday transactions previously exempted from taxation are subject to the State general rate of 4.75% plus applicable local rates. Annual energy star holiday transactions previously exempted from taxation are subject to the State general rate of 4.75% plus applicable local rates. *Nonprofit refund limit provision:* The aggregate annual refund amount allowed a nonprofit entity for a fiscal year may not exceed $45 million ($31.7 million State tax and $13.3 million local tax). Effective September 1, 2014, effective for transactions on or after September 1, 2014, fifty percent (50%) of the sales of a modular home or a manufactured home, including all accessories attached when delivered by the purchaser is exempt from taxation. Effective October 1, 2014, effective for transactions on or after October 1, 2014, the exemption is repealed for sales from vending machines where price is 1¢ per sale. Effective for transactions on or after October 1, 2014, newspapers sold through a coin-operated vending machine no longer qualify for an exemption of 50% of the sales price (taxed on 100% gross receipts). Effective January 1, 2015, gross receipts derived from admission charges to certain commercial agricultural fairs and to State attractions supported by State funds that offer cultural, educational, historical, or recreational opportunities are subject to the 4.75% general State and applicable local and transit rates of sales and use tax. *New application for real property contracts (designates the real property contractor as the consumer):* Effective for sales made (and contracts entered into) on or after January 1, 2015, the sales price of tangible personal property sold to a real property contractor for use by the real property contractor in erecting structures, building on, or otherwise improving, altering, or repairing real property is subject to the general 4.75% State and applicable local and transit rates of sales and use tax.

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RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2006-2015

(Dollars in Thousands)

		2015	2014	2013	2012	2011
Governmental activities:						
General obligation bonds..........................		$ 3,469,220	$ 3,607,100	$ 3,999,580	$ 4,470,500	$ 4,846,205
Lease-purchase revenue bonds................		2,000	4,125	20,915	30,915	205,045
Certificates of participation........................		151,745	247,615	508,500	557,895	824,860
Limited obligation bonds...........................		2,095,550	2,132,085	1,993,740	1,795,090	1,060,745
GARVEE bonds..		598,165	395,275	454,820	512,085	373,080
Issuance premium....................................		550,393	558,928	623,105	485,615	441,218
Issuance discount.....................................		—	—	—	—	—
Notes payable...		34,095	39,738	39,312	35,691	25,038
Capital leases payable..............................		17,836	17,869	19,375	21,282	22,669
Total Governmental Activities......................		6,919,004	7,002,735	7,659,347	7,909,073	7,798,860
Business-type activities:						
Revenue bonds...	(1), (2)	1,019,588	1,039,308	1,058,458	1,081,183	856,678
GARVEE bonds..	(2)	145,535	145,535	145,535	145,535	—
Issuance discount.....................................		(1,664)	(1,780)	(1,896)	(2,012)	(2,128)
Issuance premium....................................		23,326	25,932	28,661	31,507	—
Notes payable...	(1), (2)	390,818	376,869	377,466	286,818	269,030
Total Business-type Activities......................		1,577,603	1,585,864	1,608,224	1,543,031	1,123,580
Total Primary Government...........................		$ 8,496,607	$ 8,588,599	$ 9,267,571	$ 9,452,104	$ 8,922,440
Debt as a Percentage of Personal Income....		2.08%	2.20%	2.49%	2.51%	2.52%
Amount of Debt per Capita..........................		$ 846	$ 864	$ 941	970	$ 924

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.

Table 10

2010	2009	2008	2007	2006
$ 5,270,660	$ 5,169,265	$ 5,533,760	$ 5,902,330	$ 5,738,815
215,045	225,045	235,045	245,045	255,045
872,600	919,585	965,880	727,640	454,060
580,705	600,000	—	—	—
434,825	241,820	287,565	—	—
353,147	275,131	287,272	309,261	313,253
—	—	(126)	(369)	(721)
30,642	27,663	33,187	37,276	60,841
22,815	23,833	24,659	25,740	26,879
7,780,439	7,482,342	7,367,242	7,246,923	6,848,172
622,758	—	—	—	8,800
—	—	—	—	—
(2,244)	—	—	—	—
—	—	—	—	—
68,800	—	—	—	1,457
689,314	—	—	—	10,257
$ 8,469,753	$ 7,482,342	$ 7,367,242	$ 7,246,923	$ 6,858,429
2.50%	2.28%	2.22%	2.28%	2.29%
$ 888	$ 798	$ 797	$ 800	$ 773

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2006-2015

(Dollars in Thousands except Per Capita)

Fiscal Year Ended June 30	General Obligation Bonds	Lease-Purchase Revenue Bonds	Certificates of Participation	Limited Obligation Bonds	GARVEE Bonds	Issuance Premium	Issuance Discount
2015	$3,469,220	$ 2,000	$ 151,745	$2,095,550	$ 598,165	$ 550,393	$ —
2014	3,607,100	4,125	247,615	2,132,085	395,275	558,928	—
2013	3,999,580	20,915	508,500	1,993,740	454,820	623,105	—
2012	4,470,500	30,915	557,895	1,795,090	512,085	485,615	—
2011	4,846,205	205,045	824,860	1,060,745	373,080	441,218	—
2010	5,270,660	215,045	872,600	580,705	434,825	353,147	—
2009	5,169,265	225,045	919,585	600,000	241,820	275,131	—
2008	5,533,760	235,045	965,880	—	287,565	287,272	(126)
2007	5,902,330	245,045	727,640	—	—	309,261	(369)
2006	5,738,815	255,045	454,060	—	—	313,253	(721)

Note: Population data can be found in table 15.

Table 11

Total	Per Capita
$ 6,867,073	$ 684
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

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2015
(Dollars in Thousands)

		Payable from General Fund Revenues					
	Total General Obligation Bonds	*Total General Fund*	Clean Water Series 2002A 12-1-02	Public Improvement Series 2003A 3-1-03	Refunding Series 2005A 1-12-05	Refunding Series 2005B 6-29-05	Clean Water Series 2006A 3-15-06
			2.25 - 5%	2% - 5.25%	3%-5%	5%	3.875%-5.5%
Bonds Authorized and Issued:							
Ch. 132, 1998 session law.......	$ 127,155	$ 127,155	$ 18,800	$ 38,355	$ —	$ —	$ 70,000
Ch. 3, 2000 session law...........	581,645	581,645	—	281,645	—	—	—
2004 session law....................	4,638,324	4,321,760	—	—	106,895	470,510	—
Total bonds authorized and issued..........................	5,347,124	5,030,560	18,800	320,000	106,895	470,510	70,000
Bonds retired...........................	1,543,129	1,462,530	7,950	262,225	47,740	322,715	28,300
Partial defeasances................	334,775	334,775	—	24,775	—	—	—
Bonds outstanding— June 30, 2015………..............	$ 3,469,220	$ 3,233,255	$ 10,850	$ 33,000	$ 59,155	$ 147,795	$ 41,700
Bond Maturity As Follows:							
2015-16...............................	382,140	344,557	2,245	—	11,600	69,255	3,200
2016-17...............................	379,905	328,119	510	—	47,555	71,925	3,200
2017-18...............................	390,994	345,663	4,915	—	—	6,615	3,200
2018-19...............................	393,541	348,153	3,180	—	—	—	3,200
2019-20...............................	362,310	306,433	—	—	—	—	4,000
2020-21...............................	283,360	283,360	—	—	—	—	4,000
2021-22...............................	265,250	265,250	—	—	—	—	4,000
2022-23...............................	260,800	260,800	—	—	—	—	4,000
2023-24...............................	234,810	234,810	—	—	—	—	4,000
2024-25...............................	156,515	156,515	—	—	—	—	4,000
2025-26...............................	97,220	97,220	—	—	—	—	4,900
2026-27...............................	80,200	80,200	—	16,500	—	—	—
2027-28...............................	52,450	52,450	—	16,500	—	—	—
2028-29...............................	35,950	35,950	—	—	—	—	—
2029-30...............................	35,950	35,950	—	—	—	—	—
2030-31...............................	11,565	11,565	—	—	—	—	—
2031-32...............................	11,565	11,565	—	—	—	—	—
2032-33...............................	11,565	11,565	—	—	—	—	—
2033-34...............................	11,565	11,565	—	—	—	—	—
2034-35...............................	11,565	11,565	—	—	—	—	—
2035-36...............................	—	—	—	—	—	—	—
Total Bonds Outstanding..........	$ 3,469,220	$ 3,233,255	$ 10,850	$ 33,000	$ 59,155	$ 147,795	$ 41,700

Source: Compiled by the Department of State Treasurer

Table 12

Payable from General Fund Revenues

Higher Education Series 2006A 6-14-06	Public Improvement Series 2007A 3-1-07	Refunding Series 2007B 5-9-07	Refunding Series 2009A 10-20-09	Public Improvement Series 2010A 4-14-10	Refunding Series 2010B 8-31-10	Refunding Series 2010C 10-12-10	Refunding Series 2013B 2-20-13	Refunding Series 2013C 2-28-13
4.25%-5%	4.125%-5.5%	4%-4.5%	3.5%-5%	4%-5%	5%	5%	3%-5%	3.5%-5%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
300,000	—	—	—	—	—	—	—	—
—	502,745	84,385	169,297	487,700	472,595	236,095	271,373	351,970
300,000	502,745	84,385	169,297	487,700	472,595	236,095	271,373	351,970
135,000	200,000	2,245	42,847	121,925	166,425	—	25,083	15,310
135,000	175,000	—	—	—	—	—	—	—
$ 30,000	$ 127,745	$ 82,140	$ 126,450	$ 365,775	$ 306,170	$ 236,095	$ 246,290	$ 336,660
15,000	25,000	230	31,402	24,385	63,915	—	10,215	28,165
—	25,000	240	43,269	24,385	15,210	—	23,170	14,850
—	—	250	22,448	24,385	137,430	21,735	455	27,720
—	—	260	22,503	24,385	89,615	21,725	390	35,960
—	—	275	6,828	24,385	—	48,745	—	47,585
—	—	285	—	24,385	—	72,030	450	47,160
—	—	295	—	24,385	—	71,860	400	46,870
—	—	80,305	—	24,385	—	—	13,595	39,470
—	—	—	—	24,385	—	—	143,180	16,225
—	25,000	—	—	24,385	—	—	54,435	16,290
15,000	25,000	—	—	24,385	—	—	—	16,365
—	27,745	—	—	24,385	—	—	—	—
—	—	—	—	24,385	—	—	—	—
—	—	—	—	24,385	—	—	—	—
—	—	—	—	24,385	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 30,000	$ 127,745	$ 82,140	$ 126,450	$ 365,775	$ 306,170	$ 236,095	$ 246,290	$ 336,660

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (Continued)

June 30, 2015

(Dollars in Thousands)

Payable from General Fund Revenues

	Refunding Series 2013D 2-28-13 3%-4%	Refunding Series 2013E 3-21-13 2%-5%	Refunding Series 2014A 4-30-14 5%	General Obligation Series 2015A 4-22-15 3%-5%
Bonds Authorized and Issued:				
Ch. 132, 1998 session law.......	$ —	$ —	$ —	$ —
Ch. 3, 2000 session law...........	—	—	—	—
2004 session law.....................	349,955	299,785	287,095	231,360
Total bonds authorized and issued...........................	349,955	299,785	287,095	231,360
Bonds retired............................	2,575	56,375	25,815	—
Partial defeasances.................	—	—	—	—
Bonds outstanding— June 30, 2015………..................	$ 347,380	$ 243,410	$ 261,280	$ 231,360
Bond Maturity As Follows:				
2015-16...............................	2,655	16,475	29,245	11,570
2016-17...............................	27,735	16,870	2,630	11,570
2017-18...............................	27,315	35,280	22,345	11,570
2018-19...............................	26,885	86,255	22,225	11,570
2019-20...............................	66,445	71,065	25,535	11,570
2020-21...............................	65,850	17,465	40,165	11,570
2021-22...............................	65,560	—	40,310	11,570
2022-23...............................	64,935	—	22,540	11,570
2023-24...............................	—	—	35,450	11,570
2024-25...............................	—	—	20,835	11,570
2025-26...............................	—	—	—	11,570
2026-27...............................	—	—	—	11,570
2027-28...............................	—	—	—	11,565
2028-29...............................	—	—	—	11,565
2029-30...............................	—	—	—	11,565
2030-31...............................	—	—	—	11,565
2031-32...............................	—	—	—	11,565
2032-33...............................	—	—	—	11,565
2033-34...............................	—	—	—	11,565
2034-35...............................	—	—	—	11,565
2035-36...............................	—	—	—	—
Total Bonds Outstanding..........	$ 347,380	$ 243,410	$ 261,280	$ 231,360

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2015 *Table 12*

(Dollars in Thousands)

Payable from Highway Trust Fund

	Total Highway Trust	Highway Refunding Series 2009A 10-20-09 3.5%-5%	Highway Refunding Series 2010C 10-12-10 5%	Highway Refunding Series 2013B 2-20-13 3%-5%
Bonds Authorized and Issued:				
Ch. 132, 1998 session law.......	$ —	$ —	$ —	$ —
Ch. 3, 2000 session law...........	—	—	—	—
2004 session law.....................	316,564	202,622	66,055	47,887
Total bonds authorized and issued...........................	316,564	202,622	66,055	47,887
Bonds retired............................	80,599	51,282	—	29,317
Partial defeasances.................	—	—	—	—
Bonds outstanding— June 30, 2015………..................	$ 235,965	$ 151,340	$ 66,055	$ 18,570
Bond Maturity As Follows:				
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...............................	—	—	—	—
2030-31...............................	—	—	—	—
2031-32...............................	—	—	—	—
2032-33...............................	—	—	—	—
2033-34...............................	—	—	—	—
2034-35...............................	—	—	—	—
2035-36...............................	—	—	—	—
Total Bonds Outstanding..........	$ 235,965	$ 151,340	$ 66,055	$ 18,570

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2015

(Dollars in Thousands)

		Lease Purchase Revenue Bonds	*Certificates of Participation*				
	Total Special Indebtedness Debt	NC Facilities Projects Series 2004 11-1-04 2% - 5.25%	*Total Certificates of Participation*	Repair and Renovation Projects Series 2006A 8-16-06 4% - 5%	Capital Improvements Series 2006A 10-18-06 4% - 5%	Capital Improvements Series 2007A 10-3-07 4% - 5%	Repair and Renovation Projects Series 2007B 10-24-07 4% - 5%
Bonds Authorized and Issued:							
Ch. 284, 2003 session law.....	$ 3,190,940	$ —	$ 575,000	$ 100,000	$ 200,000	$ 200,000	$ 75,000
General Statute Ch. 148-37.2	$ 53,640	53,640	—	—	—	—	—
Ch. 179, 2004 session law.....	$ —	—	—	—	—	—	—
Total bonds authorized and issued..........................	3,244,580	53,640	575,000	100,000	200,000	200,000	75,000
Bonds retired..........................	481,565	20,000	196,890	45,000	80,000	45,640	26,250
Partial defeasances................	513,720	31,640	226,365	50,000	80,000	96,365	—
Bonds outstanding— June 30, 2015........................	$ 2,249,295	$ 2,000	$ 151,745	$ 5,000	$ 40,000	$ 57,995	$ 48,750
Bond Maturity As Follows:							
2015-16..............................	127,405	2,000	26,925	5,000	10,000	8,175	3,750
2016-17..............................	131,115	—	22,415	—	10,000	8,665	3,750
2017-18..............................	135,230	—	22,935	—	10,000	9,185	3,750
2018-19..............................	138,765	—	3,750	—	—	—	3,750
2019-20..............................	157,765	—	3,750	—	—	—	3,750
2020-21..............................	158,990	—	3,750	—	—	—	3,750
2021-22..............................	163,550	—	3,750	—	—	—	3,750
2022-23..............................	168,475	—	3,750	—	—	—	3,750
2023-24..............................	172,000	—	3,750	—	—	—	3,750
2024-25..............................	141,185	—	3,750	—	—	—	3,750
2025-26..............................	135,690	—	3,750	—	—	—	3,750
2026-27..............................	138,485	—	29,270	—	10,000	15,520	3,750
2027-28..............................	134,465	—	20,200	—	—	16,450	3,750
2028-29..............................	106,685	—	—	—	—	—	—
2029-30..............................	93,005	—	—	—	—	—	—
2030-31..............................	82,730	—	—	—	—	—	—
2031-32..............................	46,430	—	—	—	—	—	—
2032-33..............................	17,325	—	—	—	—	—	—
Total Bonds Outstanding........	$ 2,249,295	$ 2,000	$ 151,745	$ 5,000	$ 40,000	$ 57,995	$ 48,750

Source: Compiled by the Department of State Treasurer.

Limited Obligation Bonds

Total Limited Obligation Bonds	Capital Improvements Series 2008A 8-27-08 4% - 5%	Capital Improvements Series 2009A 4-29-09 2% - 5%	Capital Improvements Series 2011A 2-16-11 3%-5.25%	Capital Improvements Refunding Series 2011B 10-26-11 4%-5%	Capital Improvements Series 2011C 11-29-11 3%-5%	Capital Improvements Series 2013A 1-30-13 2.25%-5%	Capital Improvements Refunding Series 2014B 5-21-14 5%	Limited Obligation Refunding Series 2014C 11-19-14 2% - 5%
$ 2,615,940	$ 200,000	$ 400,000	$ 500,000	$ 367,350	$ 400,000	$ 250,000	$ 199,570	$ 299,020
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
2,615,940	200,000	400,000	500,000	367,350	400,000	250,000	199,570	299,020
264,675	41,140	86,220	66,165	15,905	38,945	16,120	—	180
255,715	98,785	156,930	—	—	—	—	—	—
$ 2,095,550	$ 60,075	$ 156,850	$ 433,835	$ 351,445	$ 361,055	$ 233,880	$ 199,570	$ 298,840
98,480	8,105	16,360	19,230	21,735	14,300	8,670	—	10,080
108,700	8,510	17,060	20,000	33,735	15,015	9,105	420	4,855
112,295	8,935	17,835	20,800	34,450	15,765	9,560	4,950	—
135,015	9,385	18,610	21,630	35,580	16,555	10,035	4,670	18,550
154,015	9,855	19,455	22,495	51,240	17,385	10,540	5,965	17,080
155,240	—	—	23,395	48,480	18,250	11,065	24,245	29,805
159,800	—	3,780	24,330	48,480	19,165	11,620	24,810	27,615
164,725	—	—	25,545	48,510	20,120	12,200	25,425	32,925
168,250	—	—	26,825	29,235	20,925	12,810	43,800	34,655
137,435	—	—	28,165	—	21,555	13,450	37,785	36,480
131,940	—	11,080	29,575	—	22,635	13,920	27,500	27,230
109,215	—	10,000	31,050	—	23,765	14,235	—	30,165
114,265	—	12,720	32,605	—	24,595	14,945	—	29,400
106,685	15,285	15,945	34,235	—	25,825	15,395	—	—
93,005	—	14,005	36,030	—	27,115	15,855	—	—
82,730	—	—	37,925	—	28,475	16,330	—	—
46,430	—	—	—	—	29,610	16,820	—	—
17,325	—	—	—	—	—	17,325	—	—
$ 2,095,550	$ 60,075	$ 156,850	$ 433,835	$ 351,445	$ 361,055	$ 233,880	$ 199,570	$ 298,840

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2006-2015
(Dollars in Thousands)

		2015	2014	2013	2012	2011
Department of Transportation						
Grant Anticipation Revenue Vehicle Bonds (GARVEE)						
Pledged Revenue-						
Federal transportation revenues		$ 1,064,575	$ 1,311,264	$ 1,137,807	$ 1,139,303	$ 1,296,856
Net available revenue		$ 1,064,575	$ 1,311,264	$ 1,137,807	$ 1,139,303	$ 1,296,856
Debt service						
Principal		$ 62,040	$ 59,545	$ 57,265	$ 40,535	$ 61,745
Interest		18,574	21,006	23,288	18,298	20,082
Coverage ratio		13.21	16.28	14.12	19.37	15.85
North Carolina Turnpike Authority						
Revenue Bonds (including GARVEE bonds)						
Pledged Revenue-						
Toll revenues	*[2]*	$ 26,265	$ 18,980	$ 10,416	$ 398	$ —
Fees, licenses and fines	*[3]*	3,922	5,203	2,557	97	—
Federal transportation revenues		9,733	11,677	12,365	12,400	—
Federal interest subsidy on debt		11,375	11,338	11,686	12,218	10,843
Interest on investments		1,768	1,272	2,372	2,911	5,235
Net available revenue		$ 53,063	$ 48,470	$ 39,396	$ 28,024	$ 16,078
Debt service						
Principal		$ 19,720	$ 19,150	$ 22,725	$ —	$ —
Interest		61,912	62,585	63,076	49,753	37,869
Coverage ratio	*[1]*	0.65	0.59	0.46	0.56	0.42

[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.

Table 14

2010	2009	2008	2007	2006
$ 763,579	$ 1,119,259	$ 904,400	$ —	$ —
$ 763,579	$ 1,119,259	$ 904,400	$ —	$ —
$ 49,515	$ 45,745	$ —	$ —	$ —
17,652	13,585	5,056	—	—
11.37	18.87	178.87	—	—
$ —	$ —	$ —	$ —	$ —
—	—	—	—	—
—	—	—	—	—
7,298	—	—	—	—
4,121	—	—	—	—
$ 11,419	$ —	$ —	$ —	$ —
$ —	$ —	$ —	$ —	$ —
15,052	—	—	—	—
0.76	—	—	—	—

Continued

PLEDGED REVENUE COVERAGE (Continued)

For the Fiscal Years 2006-2015
(Dollars in Thousands)

	2015	2014	2013	2012	2011
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services	$ 231,306	$ 239,267	$ 237,607	$ 279,287	$ 321,229
Student tuition and fees	5,214	6,673	6,624	6,903	13,859
Patient Sevices	842,845	737,984	666,238	635,434	592,061
Contracts and grants	—	—	—	—	—
State appropriations	—	—	—	—	3
Fees, licenses and fines	—	—	—	270	565
Rental lease earnings	3,998	3,866	73	258	6,787
Investment income	820	522	533	612	944
Federal interest subsidy on debt	362	368	400	436	1,559
Other operating revenues	—	3	—	1,072	563
Net incr (decr) in fair value of investments	—	571	362	74	—
Non-operating revenues	18	9,619	92	66	—
Less: Operating expenses	(1,035,252)	(915,827)	(797,205)	(744,162)	(773,796)
Net available revenue	$ 49,311	$ 83,046	$ 114,724	$ 180,250	$ 163,774
Debt service					
Principal	$ 16,720	$ 16,645	$ 17,110	$ 21,035	$ 10,305
Interest	8,298	8,668	9,137	13,226	12,245
Coverage ratio	1.97	3.28	4.37	5.26	7.26
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services	$ 1,007	$ 3,695	$ 6,283	$ 5,998	$ 5,896
Student tuition and fees	—	—	1,350	1,307	1,294
Rental lease earnings	3,129	3,035	—	62	31
Investment income	(1)	9	—	4	2
Other operating revenues	—	—	—	17	33
Less: Operating expenses	(2,021)	(2,560)	(2,127)	(2,144)	(2,026)
Net available revenue	$ 2,114	$ 4,179	$ 5,506	$ 5,244	$ 5,230
Debt service					
Principal	$ 730	$ 1,110	$ 1,788	$ 1,728	$ 1,630
Interest	1,107	1,824	1,923	1,997	2,052
Coverage ratio	1.15	1.42	1.48	1.41	1.42

Table 14

2010	2009	2008	2007	2006
$ 319,513	$ 412,186	$ 658,628	$ 614,244	$ 562,332
13,503	15,405	29,221	37,088	36,847
561,392	502,062	1,447,635	1,367,363	1,210,356
—	—	123,469	120,657	120,513
—	—	53,010	45,674	44,510
89	1,643	10,506	19,814	19,626
5,809	5,989	7,690	29,587	21,182
1,405	5,190	(31,687)	99,337	31,632
—	—	—	—	—
538	708	13,407	20,318	30,369
—	—	—	—	—
—	—	53,231	50,929	37,274
(749,788)	(805,531)	(2,047,904)	(1,919,133)	(1,763,826)
$ 152,461	$ 137,652	$ 317,206	$ 485,878	$ 350,815
$ 20,754	$ 19,375	$ 51,272	$ 51,995	$ 52,696
9,472	15,793	69,315	66,764	66,557
5.04	3.91	2.63	4.09	2.94
$ 5,688	$ 5,969	$ 2,446	$ —	$ —
1,286	1,329	1,147	1,114	1,090
26	77	118	—	—
3	8	45	44	19
32	96	—	—	—
(2,244)	(2,076)	(895)	(60)	—
$ 4,791	$ 5,403	$ 2,861	$ 1,098	$ 1,109
$ 1,555	$ 1,485	$ 1,075	$ 905	$ 575
2,142	1,947	1,209	573	222
1.30	1.57	1.25	0.74	1.39

SCHEDULE OF DEMOGRAPHIC DATA

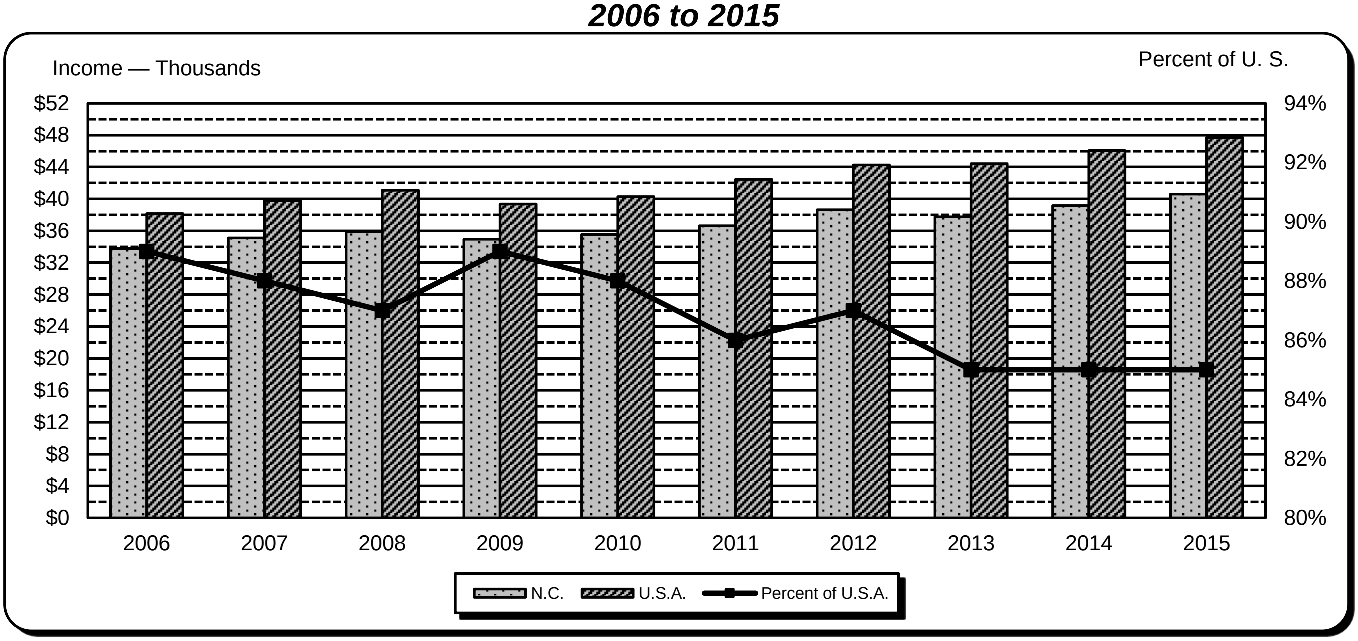
For the Years 2006-2015

	Population [3]				Per Capita Income [4]			Personal Income (millions) [5]	
Year	[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
2015	322,013,741	0.99%	10,042,409	0.99%	$47,718	$ 40,591	85.06%	$15,365,852	$407,631
2014	318,857,056	0.75%	9,943,964	0.97%	46,049	39,171	85.06%	14,683,049	389,515
2013	316,497,531	0.76%	9,848,917	1.03%	44,438	37,774	85.00%	14,064,517	372,033
2012	314,112,078	0.77%	9,748,181	1.00%	44,266	38,655	87.32%	13,904,485	376,816
2011	311,721,632	0.96%	9,651,502	1.22%	42,453	36,622	86.26%	13,233,518	353,457
2010	308,745,538	0.57%	9,535,483	1.65%	40,277	35,569	88.31%	12,435,344	339,168
2009	307,006,550	0.86%	9,380,884	1.45%	39,376	34,944	88.74%	12,088,690	327,806
2008	304,374,846	0.93%	9,247,134	2.02%	41,082	35,917	87.43%	12,504,327	332,129
2007	301,579,895	1.00%	9,064,074	2.22%	39,821	35,096	88.13%	12,009,213	318,113
2006	298,593,212	0.96%	8,866,977	2.28%	38,144	33,775	88.55%	11,389,539	299,482

[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 - 2014; and year 2015 is an Office of the State Controller estimate.

[2] - Bureau of Economic Analysis estimate for years 2006 - 2014. Since the 2015 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 2015 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2015 Per Capita Income for North Carolina".

Per Capita Income
North Carolina Compared to United States
2006 to 2015

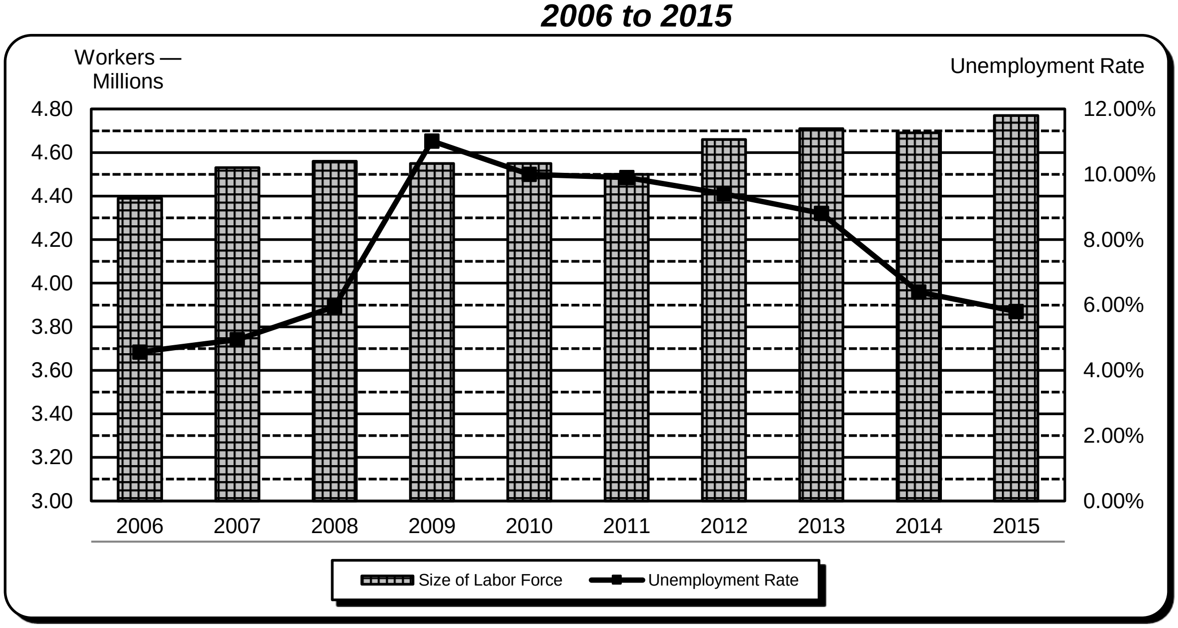


Sources: *[3] Population — U.S. Department of Commerce, Bureau of the Census*
[4] Per Capita Income — U.S. Department of Commerce, Bureau of Economic Analysis
[5] Personal Income — Calculated from sources 3 and 4

Table 15

	North Carolina Civilian Labor Force Data			*[6]*	*North Carolina - Other Data*	
					[7]	*[8]*
Year	**Total**	**Employed**	**Unemployed**	**Unemployed Percentage Rate**	**Motor Vehicles Registered**	**Residential Construction Authorized**
2015	4,770,538	4,493,898	276,640	5.80%	9,076,874	26,293
2014	4,688,666	4,389,480	299,186	6.40%	8,843,938	23,528
2013	4,708,565	4,292,251	416,314	8.80%	8,811,236	25,065
2012	4,655,387	4,216,014	439,373	9.40%	8,740,382	23,894
2011	4,503,162	4,055,793	447,369	9.90%	8,342,983	16,536
2010	4,545,756	4,089,199	456,557	10.00%	8,207,805	18,525
2009	4,554,663	4,052,943	501,720	11.02%	8,451,048	17,006
2008	4,559,713	4,288,621	271,092	5.95%	8,570,893	31,316
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626

Civilian Labor Force Trends With Unemployment Percentages 2006 to 2015



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 2006 & 2015 *Table 16*

	2015			2006		
Employer	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	175,000-179,999	1	3.95%	170,000-174,999	1	4.11%
Federal Government	65,000-69,999	2	1.50%	60,000-64,999	2	1.49%
Wal-Mart Associates, Inc	45,000-59,999	3	1.17%	45,000-49,999	3	1.13%
Charlotte Mecklenburg Hospital	30,000-34,999	4	0.72%	15,000-19,999	9	0.42%
Food Lion LLC	30,000-34,999	5	0.72%	25,000-29,999	5	0.66%
Duke University	30,000-34,999	6	0.72%	25,000-29,999	4	0.66%
Wells Fargo Bank NA	25,000-29,999	7	0.61%	—		—
Charlotte-Mecklenburg Board of Education	20,000-24,999	8	0.50%	15,000-19,999	7	0.42%
Wake County Public Schools	20,000-24,999	9	0.50%	15,000-19,999	8	0.42%
Bank of America NA	15,000-19,999	10	0.39%	10,000-14,999	10	0.30%
Wachovia Bank NA	—		—	25,000-29,999	6	0.66%
Total	455,000-514,990		10.78%	405,000-454,990		10.27%

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 2006-2015

Functions	2015	2014	2013	2012	2011
General government	5,270	5,357	5,450	5,425	5,835
Primary and secondary education	153,165	157,205	165,167	162,124	157,380
Higher education:					
Universities	62,152	61,720	60,665	61,317	62,716
Community colleges	18,471	18,588	19,518	19,702	19,958
Health and human services (1)	17,620	17,801	17,786	17,958	20,382
Economic development	2,893	3,003	2,722	2,415	2,767
Environment and natural resources (2)	3,471	3,566	3,549	3,561	4,582
Public safety, corrections and regulation (1)	33,558	33,635	34,668	34,650	34,045
Transportation	12,758	13,309	13,170	13,175	13,550
Agriculture (2)	2,080	2,081	2,110	2,064	1,349
Totals	311,438	316,265	324,805	322,391	322,564

(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 2015 are projected from prior year data.

Table 17

2010	2009	2008	2007	2006
5,941	5,898	5,774	5,656	5,308
154,107	163,322	163,113	160,086	156,463
61,505	61,063	58,856	56,751	55,800
18,948	17,263	16,708	16,148	15,610
20,919	22,094	21,276	21,128	20,766
2,524	2,474	2,558	2,623	2,567
4,607	4,740	4,709	4,653	4,616
33,140	33,895	33,014	32,360	31,820
13,902	14,767	14,752	14,664	14,007
1,366	1,393	1,385	1,405	1,377
316,959	326,909	322,145	315,474	308,334

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2006-2015

	2015	2014	2013	2012	2011
General Government					
Department of Revenue					
Number of tax returns filed electronically................................	5,678,572	5,427,355	5,139,849	4,801,446	4,078,310
Number of tax returns processed...	11,154,706	10,994,901	10,772,255	10,888,330	10,596,928
Number of individual refunds direct deposited.......................	1,412,624	1,934,344	1,821,767	1,702,620	1,556,340
Number of individual refunds processed................................	2,311,764	3,127,317	3,123,326	3,083,401	3,026,035
Number of pieces of incoming mail.......................................	5,090,535	5,129,271	5,514,005	5,827,530	6,012,977
Number of pieces of outgoing mail..	9,219,001	8,417,904	8,172,888	8,525,983	8,972,129
Department of Administration					
Construction projects administered.......................................	8	7	7	6	6
Construction value excluding design fee (thousands)............	$ 63,552	$ 63,460	$ 62,729	$ 54,378	$ 35,403
Cultural Resources					
Visitation to historical sites and museums..............................	3,697,539	3,224,547	3,037,648	2,966,128	2,966,209
USS North Carolina Battleship Commission					
Visitation to USS North Carolina Battleship............................	202,447	210,969	216,438	193,150	208,994
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment..	1,520,985	1,510,664	1,493,474	1,481,671	1,476,348
Total high school graduates...	96,477	95,580	94,869	92,031	89,027
Graduate intention to pursue further education.......................	83.8%	84.5%	85%	100%	86.12%
Higher Education					
Community Colleges					
Number of students (annualized FTE)....................................	225,135	229,924	238,092	240,338	249,934
Number of certificates and degrees awarded..........................	49,592	45,392	40,224	56,140	39,255
Universities					
Number of regular term students (FTE)..................................	202,447	200,716	201,251	200,386	201,147
Number of certificates and degrees awarded..........................	51,850	51,086	49,791	48,045	45,821
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients...	2,054,975	2,073,166	1,781,096	1,872,279	1,670,912
Food stamp recipients..	1,649,754	1,620,115	1,670,428	2,113,648	1,567,572
Clients served by mental health facilities................................	3,301	3,593	3,463	4,102	4,423
Clients served by developmental disabilities facilities.............	1,199	1,212	1,289	1,283	1,334
Clients served by substance abuse facilities..........................	3,698	4,047	4,181	3,901	4,200
Clients served by neuro-meds facilities..................................	721	744	567	830	827
Children served through subsidized child care.......................	120,471	121,112	121,303	129,752	136,564
Participation in Special Supplemental Nutrition Program.........	248,575	257,582	265,616	268,872	272,806
Clients served through Work First..	33,598	37,256	45,201	102,367	47,166
NC Health Choice annual enrollment......................................	78,407	98,537	192,044	154,927	208,563

Table 18

2010	2009	2008	2007	2006
4,089,267	3,502,141	3,246,333	2,799,979	2,487,716
10,898,544	11,336,722	11,258,489	10,386,112	10,437,669
1,376,997	1,294,894	1,119,403	925,321	809,473
3,021,379	3,081,986	3,005,539	2,832,152	2,834,960
7,219,907	6,897,757	8,636,219	8,092,899	7,986,688
8,201,770	8,443,945	9,194,775	7,844,614	9,206,342
16	135	117	61	71
$ 79,906	$ 110,674	$ 52,660	$ 60,028	$ 73,006
2,325,718	2,079,340	2,627,987	2,748,455	2,068,910
206,965	191,206	198,378	190,048	188,249
1,465,562	1,466,803	1,462,374	1,435,275	1,368,607
89,968	83,618	80,606	88,691	72,580
85.19%	85.09%	84.86%	84.63%	87.09%
246,656	215,915	200,000	193,410	190,644
33,922	31,203	28,173	27,117	28,983
199,717	193,219	187,791	181,886	176,619
43,459	41,924	39,592	38,260	37,348
1,721,439	1,686,515	1,721,488	1,667,354	1,673,510
1,294,732	1,077,914	924,265	874,426	838,064
6,199	8,465	11,729	14,897	14,766
1,323	1,351	1,376	1,390	1,382
4,103	3,922	4,052	3,463	3,692
829	858	854	874	851
151,363	150,813	159,457	167,568	230,140
271,980	273,845	254,120	239,441	63,290
56,186	54,911	53,082	59,340	69,885
198,613	194,611	181,685	171,580	199,160

Continued

OPERATING INDICATORS BY FUNCTION (Continued)

For the Fiscal Years 2006-2015

	2015	2014	2013	2012	2011
Economic Development					
Economic Development Partnership of North Carolina					
Jobs generated company recruitment/expansion	14,812	14,094	16,939	15,634	22,409
Capital investment (thousands)	$ 2,388,677	$ 2,787,447	$ 2,139,346	$ 3,600,000	$ 4,151,293
Department of Commerce					
Total employed	4,493,898	4,389,480	4,292,251	4,216,014	4,055,793
Percentage of unemployment	5.8%	6.4%	8.8%	9.4%	9.9%
Environment and Natural Resources					
Department of Environment and Natural Resources					
Public drinking water systems in compliance	96%	96%	96%	95%	96%
Visitation to state parks	16,293,380	14,751,051	13,918,725	14,247,295	14,660,154
Visitation to Museum of Natural Sciences	930,458	936,905	1,205,601	914,044	675,751
Visitation to state aquariums (4)	1,268,467	1,123,756	1,193,252	1,104,200	1,083,967
Visitation to N.C. Zoo	721,432	728,531	732,310	738,072	741,119
Wildlife Resources Commission					
Hunting licenses sold	145,729	126,524	117,473	115,420	119,347
Fishing licenses sold (inland and coastal) (5)	795,878	823,712	772,197	791,044	797,897
Combination hunting/fishing licenses sold (5)	191,244	204,179	199,280	198,689	198,102
Vessels registered	146,305	144,316	149,311	143,535	147,964
Public Safety, Corrections and Regulation (3)					
Department of Public Safety					
Incarcerated adult offenders	37,793	37,529	37,619	38,385	41,030
Supervised adult offenders	102,790	103,399	105,763	103,163	109,326
Juvenile offenders	8,037	8,141	8,625	9,090	9,332
Administrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court	100%	100%	100%	100%	100%
Cases disposed as a % of cases filed-District Court	100%	100%	100%	100%	100%
Agriculture					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (1)	95,811	96,880	110,730	104,666	99,273
Rejection rate	16%	16.36%	12.84%	9.2%	9.93%
Retail scales tested (2)	26,091	30,220	27,995	28,074	28,925
Rejection rate	8.8%	8.96%	9.65%	8.14%	7.63%

Notes:

(1) Governed by Gasoline and Oil Inspection Law (G.S. 119)

(2) Governed by North Carolina Weights and Measures Act (G.S. 81A)

(3) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.

(4) Data not available for years prior to 2009

(5) 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

2010	2009	2008	2007	2006
18,326	15,077	11,636	19,259	20,293
$ 2,653,795	$ 3,433,657	$ 3,600,000	$ 3,336,864	$ 3,024,914
4,089,199	4,052,943	4,288,621	4,309,833	4,193,971
10%	11.02%	5.95%	4.94%	4.56%
96%	95%	95%	95%	94%
14,023,959	13,378,421	12,871,661	13,292,706	12,246,845
656,234	763,763	727,000	667,014	622,915
1,125,096	991,430	—	—	—
749,627	729,615	729,500	746,650	682,977
114,677	110,198	106,337	106,691	107,520
787,113	794,132	778,014	625,672	357,161
198,045	204,327	210,887	219,358	207,537
151,348	143,071	140,573	142,808	363,641
40,102	40,824	39,112	38,218	37,121
111,743	114,367	116,927	117,164	116,513
9,867	10,701	10,592	10,844	10,658
100%	97.4%	98.5%	98.5%	93.8%
100%	100%	98.28%	98.7%	98.1%
121,897	99,461	98,736	100,928	109,699
10.77%	10.29%	12.73%	13.8%	10.77%
33,331	33,329	24,640	20,051	24,896
11.1%	11.11%	10.51%	10.7%	8.28%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2006-2015

	2015	2014	2013	2012	2011
Primary Government					
General Government					
Department of Administration					
Buildings	107	105	127	120	117
Parking lots	25	25	25	25	25
Parking spaces	8,526	8,528	8,597	7,877	8,314
Motor Fleet vehicles	7,602	8,136	7,620	7,538	8,145
Health and Human Services					
Mental Health Institutions	13	13	12	11	11
Number of certified beds	4,111	4,245	4,402	4,314	4,331
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	157,856	155,556	153,959	152,578	150,807
Number of state recreation areas	4	4	4	4	4
Acres of state recreation areas	13,256	13,256	12,240	12,240	12,240
Number of state natural areas	20	20	20	20	20
Acres of state natural areas	24,662	23,896	22,519	22,254	22,145
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	1,767	1,816	1,622	1,593	1,355
Vehicles (5)	889	883	896	856	1,889
Boats/trailers (5)	519	508	489	468	633
Aircraft (5)	3	3	3	3	26
Scientific equipment	749	774	689	663	789
Wildlife Resources Commission					
Number of game lands	64	64	57	62	62
Acres of game lands	481,665	496,134	492,440	480,257	480,257
Public Safety, Corrections and Regulation (4)					
Department of Public Safety					
Close security prisons	14	13	13	14	14
Medium security prisons	18	22	23	23	23
Minimum security prisons	26	24	29	29	33
Youth facilities	10	10	13	15	16
Adult Correction Vehicles:					
Passenger/cargo vans	127	122	120	152	106
Inmate transfer vans/buses	490	486	492	506	493
Inmate work crew vans/buses	218	223	222	239	243
Pickup trucks	376	348	338	381	349
Roving patrol pickups	95	97	98	91	92
One ton maintenance trucks	106	106	107	123	95
Specialty/other trucks (1)	108	108	113	105	129
Enterprise Vehicles:					
Passenger/cargo vans	16	16	14	14	17
Inmate workcrew buses	18	19	15	20	23
Pickup trucks	52	52	44	49	49
One ton maintenance trucks	21	21	24	24	21
Specialty/other trucks	117	106	126	110	103

Table 19

2010	2009	2008	2007	2006
129	129	129	135	136
76	23	49	49	49
8,813	7,408	8,477	8,215	8,156
8,341	8,784	9,090	9,506	10,785
12	13	12	12	12
4,688	4,346	4,932	4,961	5,009
35	35	34	33	32
148,897	144,806	140,254	119,664	222,251
4	4	4	4	4
12,240	12,240	12,240	12,240	12,240
19	19	17	18	14
20,833	20,910	20,281	34,288	32,930
7	7	7	7	7
29,135	29,135	29,135	29,135	29,135
1,569	1,565	1,723	1,786	1,942
1,764	1,745	1,744	1,708	1,644
606	585	597	573	563
32	32	31	30	30
762	737	780	748	732
61	59	58	54	38
475,212	468,570	471,248	431,449	341,351
14	14	13	13	13
23	26	26	26	26
33	39	39	39	39
17	17	14	14	14
108	118	131	172	99
608	511	541	487	481
276	291	306	274	301
353	351	361	353	287
103	89	100	80	84
115	108	104	106	105
119	114	129	113	103
18	22	23	22	23
25	26	28	24	21
54	59	52	51	47
22	22	20	18	18
101	103	104	98	93

Continued

CAPITAL ASSET STATISTICS BY FUNCTION (Continued)

For the Fiscal Years 2006-2015

	2015	2014	2013	2012	2011
Department of Public Safety					
Alcohol Law Enforcement Vehicles					
Cars/SUV's	225	162	172	202	174
State Highway Patrol Vehicles					
Cars	1,805	1,925	1,766	2,214	2,422
Trucks/vans	525	506	486	124	126
Motorcycles (2)	46	40	28	26	25
State Bureau of Investigation Vehicles					
Cars/SUV's	308	349	333	356	344
Trucks/vans	78	74	78	75	75
State Highway Patrol Air Craft					
Helicopters	6	6	9	9	7
Transportation					
Department of Transportation					
Pavement in lane-miles:					
Primary subsystem (2)	—	15,062	15,064	15,052	15,002
Secondary subsystem (2)	—	64,522	64,514	64,440	64,413
Bridges:					
Number of bridges	13,519	13,552	13,557	13,583	13,531
Number of culverts	4,520	4,496	4,547	4,710	4,730
Vehicles	9,191	9,463	9,484	8,997	8,337
Heavy equipment	15,237	14,808	14,221	13,827	12,703
Component Units					
Higher Education					
Community Colleges					
Buildings	1,199	1,182	1,178	1,174	1,161
Universities					
Academic/administrative buildings	1,070	1,010	1,003	1,011	993
Dormitories/auxiliary buildings	721	684	692	680	654
Medical (3)	49	39	36	34	31
University System Hospitals					
Administration	18	18	18	11	4
Clinical	51	52	52	14	12
Facility services	10	10	9	6	6
Hospital	8	7	8	6	6

Notes:

(1) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.

(2) Recent data from the source was not available, as of the date of publication.

(3) East Carolina Teaching Hospital

(4) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.

(5) Starting in fiscal year 2012, vehicles, boats/trailers, and aircraft have decreased because the Division of North Carolina Forest Service and Division of Soil and Water Conservation are now included in Department of Agriculture; whereas in prior years the divisions were included with Department of Environment and Natural Resources.

Table 19

2010	2009	2008	2007	2006
156	156	150	151	156
2,692	2,692	2,722	2,530	2,417
128	128	111	115	114
19	19	16	16	9
339	279	247	176	110
72	64	57	46	38
8	8	8	8	13
14,952	14,919	14,885	14,871	14,833
64,378	64,267	64,553	64,390	64,209
13,251	13,222	13,152	13,053	13,007
5,056	5,007	5,004	4,979	4,912
8,422	9,349	8,850	8,850	5,823
12,647	13,216	12,116	8,920	3,119
1,134	1,097	1,046	1,024	1,014
962	933	911	971	930
640	560	523	613	583
37	39	58	58	51
4	4	4	4	4
11	12	11	11	10
6	6	6	6	6
6	5	4	4	4

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND

For the Fiscal Years Ended June 30, 2006-2015

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, 2006-2015 *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.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1) Required contribution and investment revenue:										
Earned	$12,538	$14,509	$18,430	$18,054	$20,337	$16,257	$20,699	$ 13,978	$ 9,814	$ 14,732
Ceded	2,489	3,077	2,371	3,642	3,852	3,576	3,717	4,502	4,313	3,545
Net earned	10,049	11,432	16,059	14,412	16,485	12,681	16,982	9,476	5,501	11,187
2) Unallocated expenses	3,092	3,672	664	680	659	666	701	714	695	635
3) Estimated claims and expenses, end of policy year:										
Incurred	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386	8,585	10,524
Ceded	—	(7,450)	—	—	—	(6,761)	—	—	—	—
Net incurred	3,096	7,465	1,718	2,253	1,783	13,579	19,304	6,386	8,585	10,524
4) Paid (cumulative) as of:										
End of policy year	3,130	15,174	1,426	1,746	1,502	5,505	6,992	1,975	1,845	1,448
One year later	4,005	19,270	2,016	2,149	2,082	13,090	9,389	3,465	4,053	
Two years later	4,005	19,270	2,016	2,149	2,082	13,090	9,389	3,465		
Three years later	4,005	19,270	2,016	2,149	2,082	13,090	9,389			
Four years later	4,005	19,270	2,016	2,149	2,082	13,090				
Five years later	4,005	19,270	2,016	2,149	2,082					
Six years later	4,005	19,270	2,016	2,149						
Seven years later	4,005	19,270	2,016							
Eight years later	4,005	19,270								
Nine years later	4,005									
5) Reestimated ceded claims and expenses	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386	8,585	10,524
One year later	3,096	11,348	1,653	2,276	1,846	27,242	13,159	4,985	5,189	
Two years later	3,096	11,348	1,979	2,269	1,846	27,242	13,159	4,985		
Three years later	3,096	11,348	1,979	2,269	1,846	27,242	13,159			
Four years later	3,096	11,348	1,979	2,269	1,846	27,242				
Five years later	3,096	11,348	1,979	2,269	1,846					
Six years later	3,096	11,348	1,979	2,269						
Seven years later	3,096	11,348	1,979							
Eight years later	3,096	11,348								
Nine years later	3,096									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	—	3,883	261	16	63	13,663	(6,145)	(1,401)	(3,396)	—

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North Carolina Office of the State Controller
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Phone requests can be made at **(919) 707-0500** or **(919) 981-5560** (FAX)

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