

# North Carolina



*Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2013*

# The James B. Hunt Jr. Library

## North Carolina State University

The North Carolina Office of the State Controller is proud this year to feature the James B. Hunt Jr. Library on the cover of the 2013 Comprehensive Annual Financial Report (CAFR). The Hunt Library, which opened in January 2013, features over 221,000 gross square feet, including space for the Institute for Emerging Issues and other university centers and institutes. Anchoring Centennial Campus' Academic Oval, the building is longer and wider than a football field, stretching roughly 460 feet in length and 180 feet at its widest point. It is 88 feet high at the tallest point, providing dramatic views of Lake Raleigh and the city skyline.

The Hunt Library has almost 100 group study rooms and technology-equipped spaces to support learning, research, and collaboration. The robot-driven bookBot automated book delivery system holds up to two million volumes in 1/9 the space of conventional shelving, enabling the library to provide more space for learning and collaboration. The bookBot is 50 feet wide by 160 feet long by 50 feet tall and is excavated 20 feet below the first floor. The bookBot delivers books in minutes with a click in the online catalog. Visitors can watch the bookBot in action through a glass wall on the first floor ("Robot Alley"), as four robots dart up and down enormous aisles to pinpoint and retrieve materials.

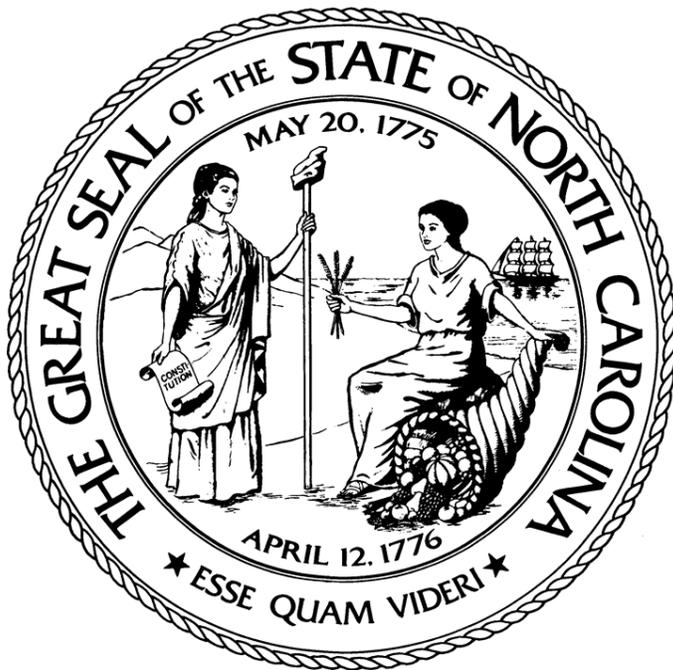
The James B. Hunt Jr. Library's bold design is a visual statement of its bold purpose: to be a place not of the past but of the future, a place where students, faculty, and partners can gather to research, learn, experiment, collaborate, and strengthen NC State's long tradition of leading transformative change.

Photo courtesy of NC State University/Becky Kirkland.

# NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2013



PAT MCCRORY  
GOVERNOR

DAVID T. MCCOY  
STATE CONTROLLER

Prepared by Statewide Accounting Division  
Office of the State Controller

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

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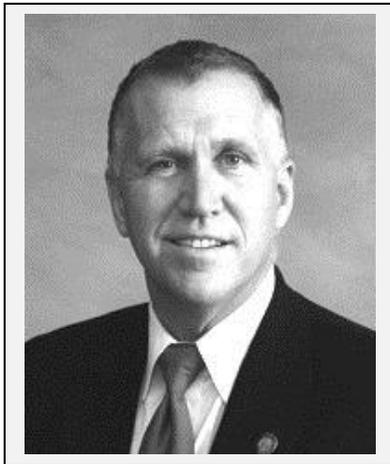
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.



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**PAT MCCRORY**  
*Governor of North Carolina*

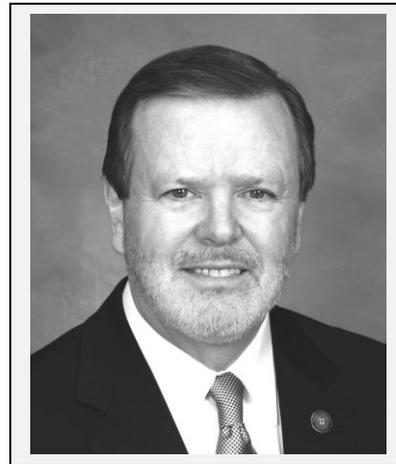
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**REPRESENTATIVE THOM TILLIS**  
*Speaker of the House*  
*North Carolina General Assembly*

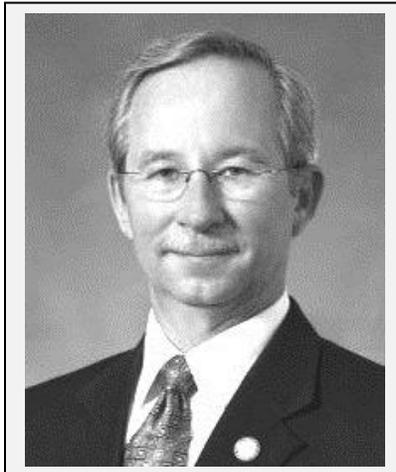
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**SENATOR PHILIP BERGER**  
*President Pro Tempore*  
*North Carolina General Assembly*

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**DAVID T. MCCOY**  
*State Controller*

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# INTRODUCTORY SECTION



# State of North Carolina

## Office of the State Controller

**DAVID T. MCCOY**  
**STATE CONTROLLER**

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 2013 Comprehensive Annual Financial Report (CAFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

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

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

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

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

## Profile of the State of North Carolina

### *The Old North State, The Tar Heel State*

North Carolina became the 12<sup>th</sup> state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 9.85 million, making it the 10<sup>th</sup> 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 79,492 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family. The State has been consistently ranked as one of the nation's "Top Business Climates" according to *Site Selection* magazine. It has taken the top honor 10 times in the last 13 years in the annual selection by the magazine. In addition, North Carolina is ranked among the best business climates in the nation by CNBC, *Forbes* and *Chief Executive*.

### *Government*

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

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

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

### *State Reporting Entity and Its Services*

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

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

*Budgetary Control*

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

**Economic Condition**

*Overview*

During fiscal year 2012-13, the economy gathered momentum. Economic conditions in the State, as well as the nation, reflected a moderately improving economy. The slow-paced recovery of the previous three years began to gather strength in 2012. For many industries, growth was strong enough to improve their economic output to levels experienced prior to the recession. During the fiscal year, overall economic activity in the State improved, surpassing the pace of growth nationally. Despite the overall improvement, employment gains remained weak. Employment growth has been persistently stubborn keeping unemployment rates elevated above where one would expect them to be three plus years after the last economic downturn. The State's economy during the fiscal year added 70,800 payroll jobs. This still left non-agricultural employment in the State with 113,000 fewer people employed than at the end of fiscal year 2007- 08, and the unemployment rate at 8.9%.

During the first-half of the fiscal year, it appeared the economy was gaining momentum. By the second-half of the year much of this momentum had been lost, and the nation's Gross Domestic Product (GDP, a broad measure of economic activity) dropped well-below the average rate of growth. Global economic instability intensified and continued to be a drag on the nation's economy. Moreover, fiscal policy uncertainties on both taxes and spending at the federal level intensified during late summer and into the fall of 2012, further impeding the pace of growth in the economy. Given these mixed signals both employers and consumers continued to be cautious.

During the fiscal year (FY), the State's improvement in the overall economy led to a 3.4% increase in wage and salary income. Growth in total wage and salary income increased by 4.5% the second quarter of the fiscal year, but slowed to 2.6% growth in the last half of the fiscal year. Despite this slowdown, employment and income are anticipated to improve for the rest of 2013, approaching a normal, average pace of growth. In 2014, wages are forecast to grow faster than the average rate of 5.1%.

*National Economic Outlook*

United States Economic Indicators	<i>FY2011-12 Actual</i>	<i>FY2012-13 Actual</i>	<i>FY2013-14 Projected</i>	<i>FY2014-15 Projected</i>
Economic growth (GDP)*	2.1%	1.8%	2.9%	3.8%
Personal Income	3.6%	4.1%	5.3%	6.1%
Corporate Pre-Tax Profits	8.7%	9.8%	2.7%	5.9%
Retail Sales and Food Services	6.6%	4.9%	4.8%	5.2%
Consumer Price Index	2.9%	1.7%	1.9%	2.3%
30-yr Fixed Mortgage Interest Rate	4.0%	3.5%	4.8%	5.0%

\*Adjusted for inflation

The national economy has been hampered by a weak global economy, especially key trading partners in the Eurozone. The aftermath of the global financial crisis continued to affect economies worldwide. This was especially true in the Eurozone where sovereign debt problems escalated during the previous fiscal year. As a result, the Eurozone collectively experienced an economic downturn and only exited their recession this past summer. Offsetting some of the weakness in the overall global economy was a rebound in the nation's housing market. While improvements in the housing market were modest, the improvement seemed to boost consumer confidence and improved many of the related industries hurt by the five-year decline in housing. Consequently, the economy further stabilized, though remained in a below-normal growth pattern throughout most of the fiscal year. The nation's outlook for the remainder of 2013 and 2014 is for stronger growth approaching the long-run average growth in the economy.

Economic indicators convey the moderate pace of growth in the nation during the fiscal year. The overall economy experienced below average growth recording only a 1.8% increase in GDP. This was slower than in the previous fiscal year. The economy appeared poised to move into a stronger recovery growth phase with 2.6% annualized growth in the third quarter of 2012. By the next quarter, rather than accelerating, growth had slowed to 1.6%. Despite the sporadic pace of the recovery, the rebound in the U.S. housing market means the nation's economy would continue to gain momentum. In FY 2013-14, the national economy is expected to grow by 2.9%. The following fiscal year economic activity is expected to grow 3.8%, surpassing the long-run average rate of growth of 3.0%.

Weak economic growth during 2012, and into 2013, meant that employment would be slow to improve. The nation's unemployment rate dropped to 7.4%, but long-term unemployment and under-employment continued to cloud the employment picture. What growth there was in employment helped increase personal income. During the fiscal year, total personal income in the nation rose by 4.1%. Further advancements in the overall economy are projected to push personal income growth to 5.3% in FY 2013-14.

Business profitability saw a major rebound after the recession, but profits had leveled-off by 2012. Many businesses coming out of the recession were bolstered by a global economic recovery primarily in emerging markets such as India and China. In the past year, export demand softened as the sovereign debt crisis, which mostly affected European countries, weakened export growth and lowered expectations for profit growth. Nonetheless, profits grew by nearly 10% during the fiscal year. Profit growth is forecast to weaken with respective growth in the upcoming fiscal years of 2.7% and 5.9%.

A good indicator of the health of the economy is retail sales. This key indicator experienced continued strong growth in FY 2012-13. Consumers were hit hard during the economic downturn as household wealth declined, credit markets tightened, inflation-adjusted wages fell, and the employment picture darkened. While these problems have improved, they continue to persist and consumer spending is expected to soften in the upcoming fiscal year. When the real estate market broadly, and fully, stabilizes and the employment picture improves, consumers may be more likely to increase their spending.

To summarize, the global concerns about the fiscal health of many European nations along with the nation's struggle to repair damage to the housing market during the Great Recession continued to impact economic conditions for most of the fiscal year. U.S. fiscal policy played a smaller role during the fiscal year, but still added uncertainty for business decision makers. Part of what was fueling economic growth, a global economic recovery, suffered a setback with debt problems plaguing many industrialized nations. While the debt problems showed marked improvement in 2012, the after effects still lingered. Thus, any chance for a stronger national recovery was held back by the weakened global economy.

*North Carolina  
Economic  
Outlook*

North Carolina Economic Indicators	FY2011-12 Actual	FY2012-13 Actual	FY2013-14 Projected	FY2014-15 Projected
State Gross Product	2.5%	5.1%	4.8%	6.0%
Personal Income	4.1%	3.6%	5.0%	5.7%
Wages & Salaries	2.9%	3.4%	4.7%	5.3%
Retail Sales	7.3%	6.3%	6.3%	6.5%
Unemployment Rate	9.9%	9.3%	8.4%	8.2%
Employment (Nonagricultural)	1.5%	1.8%	1.7%	2.1%
Population	1.0%	1.5%	1.8%	2.5%
Existing Single-family Home Sales	32.7%	30.5%	7.9%	1.1%

For North Carolina, as with the nation, the economy has strengthened, but not enough to eliminate the employment losses from the economic downturn. Economic indicators for the fiscal year, point to growing improvements across the State. Despite adding 70,800 jobs during the fiscal year, there were still 113,000 fewer people employed in the State (3% of total nonfarm employment) than at the end of the 2007- 08 fiscal year. Most private sector industries experienced modest growth, but employment in the construction industry continued to decline. Along with the gains in employment, total salary income continued to improve growing 3.4%.

Projections for the State's key economic indicators reflect how the recovery in the State is expected to unfold. Gross State Product, a broad measure of the State's economic activity is expected to continue solid growth in FY 2013-14. Total personal income growth moderated in FY 2012-13, but is expected to show steady improvement over the next two fiscal years. For the fiscal year, income rose 3.6%, but the increase lags well behind the strong growth of six to seven percent experienced in the years prior to the onset of the recession. Wage and salary income, a component of total personal income, grew at a modest 3.4% for the fiscal year. The rise in wage and salary income was consistent with the increase in total employment. Going forward, improved growth in total income is projected. This growth will result from a continually improving employment situation, plus upward pressure on individual wages, where growth has been stagnant the past five years. A return to long-term growth levels in wage and salary income is forecast for 2014.

As with the nation, the recovery in North Carolina gained strength, but the pace of the recovery remained sluggish during FY 2012-13. This meant fewer jobs were being created and the unemployment rate at the end of the fiscal year remained elevated at 8.9%. That compares to the 9.6% at the start of the fiscal year. Despite a slow-growth economy and high unemployment, retail sales grew at a rate of 6.3%. The growth in retail sales slowed from the previous year yet remained above average. Going forward, retail sales are expected to stay above 6%, increasing at a pace above the long-term average growth rate of 5%.

As the State's economy continues to progress, employment prospects are expected to improve, but a robust employment climate is not projected until 2015. Employment conditions, while improving, will not be great enough to significantly change the unemployment rate. The rate is projected to remain elevated above 8% into 2014. Except for construction and resource mining, all other industry sectors experienced growth over the previous year with net employment growth of 1.9%. With the rebound in residential construction, the construction industry is expected to have employment gains during the upcoming fiscal year. For 2014, modest improvement in all industries is expected, increasing non-agricultural employment by 1.7%. This pace of growth, however, will be too slow to greatly reduce the unemployment rate. The rate is projected to average 8.4% in FY 2013-14, and 8.1% in FY 2014-15.

The State's manufacturing sector saw a turnaround in employment during the fiscal year. Manufacturing reached double-digit percentage losses in the last recession. During this fiscal year, the manufacturing sector added only 4,700 jobs (1.1% growth). Manufacturing employment is now above 443,000. This is still 91,000 fewer jobs than at the start of the recession. Another hard hit industry in the State was the financial sector. The financial market began to rebound in 2010, but employment is not expected to surpass pre-recession numbers until 2015.

The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. A strong rebound in home sales was underway in 2012. Fiscal year 2012-13 ended with sales of existing homes increasing by 30.5%. The growth, while impressive, reflects how sharp the fall off in home sales had been from 2007-2010. In 2014, annual existing home sales are projected to remain 10% below what they were at the peak in 2006.

Gradually improving economic conditions continued throughout the fiscal year and has the State's economy on a more solid footing. The ongoing weakness in the global economy was a drag on the pace of the economic recovery, both for the nation and the State, and continues to pose a risk for economic growth. The housing market is expected to maintain its gradual improvement and with steady growth in household income and consumer spending anticipated, stronger employment gains are projected in 2014.

*— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist  
North Carolina General Assembly, Fiscal Research Division  
September 23, 2013*

## Long-term Financial Planning

The 2013 General Assembly passed significant legislation to reform the State's tax code and unemployment insurance system.

### *State Tax Reform*

Session Law 2013-316, the Tax Simplification and Reduction Act, created a flat personal income tax, reduced personal and corporate income tax rates, and increased sales and use tax revenues through an expanded base by removing several exemptions and preferential rates. It also repealed the estate tax, reduced franchise taxes and eliminated several tax earmarks. The desired outcome of the tax reform is to provide tax relief to individuals and corporations, attract new industry and business to the State and spur economic growth.

### *Unemployment Insurance Changes*

Starting in fiscal year 2009 after the great recession, the State's unemployment insurance fund was depleted and could not keep pace with paying unemployment benefits without borrowing from the federal government. The State's debt to the federal government grew to \$2.2 billion for the fiscal year ended June 30, 2013. To address this debt and restructure the program, Session Law 2013-2 made several tax rate and programmatic changes to the State's unemployment insurance system. The changes reduce the amount and duration of benefits, increase employer tax rates, and require governmental and nonprofit employers to maintain a reserve for payment of benefits. The effect of the restructuring is to increase the unemployment fund's revenues, reduce its expenses, and accelerate the repayment of the debt owed to the federal government. The Fiscal Research Division of the General Assembly estimates that the legislative changes will result in repayment of the debt in 2015, three years sooner than repayment would have occurred without the changes.

## Major Initiatives

### *Government Data Analytics Center*

Recent legislation expanded the State's existing data and business intelligence initiatives. The Government Data Analytics Center (GDAC) was created to manage the State's enterprise data integration and business analytics efforts. The vision of the GDAC is to transform existing data assets into an information utility for the State's policy and operational leaders for their use in determining program investment, managing resources and improving financial programs, budgets and results. The GDAC initiative includes all state agencies, departments, and institutions, including the University of North Carolina and is not intended to replace transactional systems, but instead to leverage the data from those systems for enterprise-level state business intelligence. The ultimate goal of the GDAC is to provide users with analytical information to make better decisions, saving the State time and money.

The powers and duties of the GDAC are to continue and coordinate ongoing enterprise data integration efforts including:

1. Criminal Justice Law Enforcement Automated Data System (CJLEADS). This is a tool developed by the State to provide criminal justice professionals with integrated comprehensive offender information. CJLEADS serves over 26,700 criminal justice users at the state, federal and local levels. The fiscal year 2013 release provided the ability to verify outstanding warrants against a statewide warrant repository on a real-time basis. Additional information about CJLEADS is available at <http://www.cjleads.nc.gov>.
2. North Carolina Financial Accountability and Compliance Technology System (NCFACTS). The objective of NCFACTS is to develop automated fraud, waste and improper payment detection capabilities. In fiscal year 2013, NCFACTS continued development of unemployment insurance and workers' compensation fraud and compliance alerts. The first production releases of NCFACTS are scheduled for the second quarter of fiscal year 2014.
3. Individual-level student data and workforce data from all levels of education and the State workforce.

The GDAC requirements include taking inventory of existing State business intelligence projects, identifying redundancies and gaps, and developing a plan to discontinue redundancies. The GDAC is also responsible for ensuring that data integration actions are completed in a manner that maintains the security of data and protects the privacy of personal information.

## 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 General Assembly and 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 2012-13, the balance of the Savings Reserve Account was \$418.8 million. In accordance with Session Law 2013-360 the State Controller transferred \$232.5 million from the unreserved fund balance to the Savings Reserve Account on June 30, 2013, bringing the balance to \$651.3 million. This represents 3.3% of the prior year’s General Fund appropriation budget. Although the State fell short of its 8% goal, there is improvement compared to last year. The Savings Reserve Fund continues to be replenished after being depleted during the last recession.

### *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. In accordance with Session Law 2013-360 the State Controller transferred \$150 million from the unreserved fund balance to the R&R Account on June 30, 2013 to end the fiscal year with a balance of \$161.9 million.

### *Debt Affordability Advisory Committee*

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

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

The Committee’s 2013 study found that North Carolina’s debt is manageable at current levels. 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 study indicated the State’s current revenue picture is positive, reflecting a continued economic recovery. After a period during which weak revenue growth constrained the State’s debt capacity, the State’s General Fund now has debt capacity in each of the next 10 years. The ratio of debt service to revenues will peak at 3.94%, slightly below the 4% target.

The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt that 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 conservative debt management policies. The study emphasized centralized debt management as a key control and best management practice, and strongly encouraged the General Assembly to adopt language restricting the ability of state agencies to enter into financial arrangements that incur debt or debt-like obligations. In addition, replenishing the Savings Reserve Account should remain a priority.

## 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, 2012. This was the 19<sup>th</sup> consecutive year (1994 to 2012) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

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

### *Acknowledgments*

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to 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,



David T. McCoy  
State Controller

November 25, 2013

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# CERTIFICATE OF ACHIEVEMENT

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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

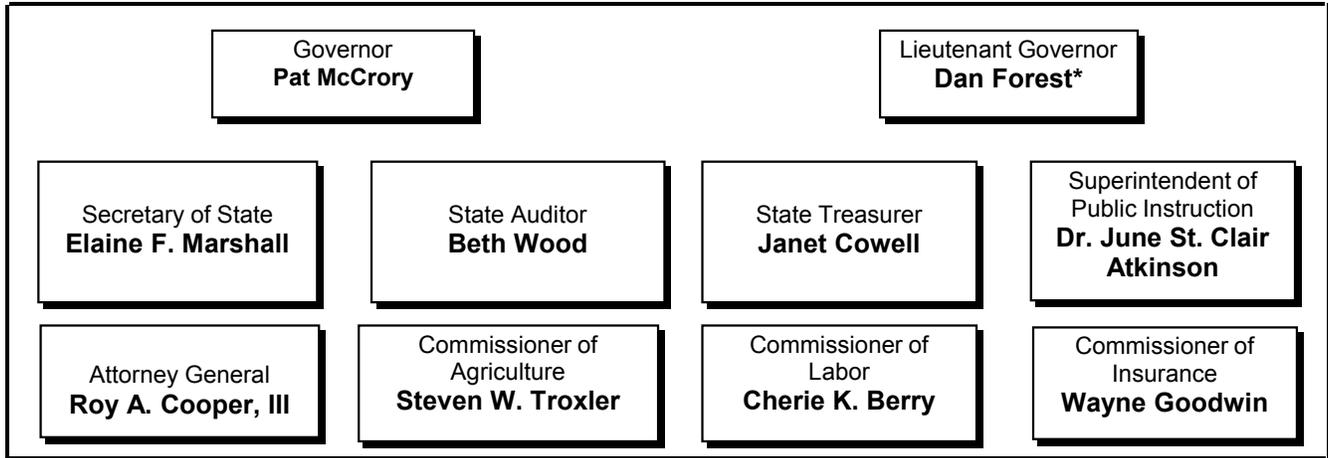
**June 30, 2012**

Executive Director/CEO

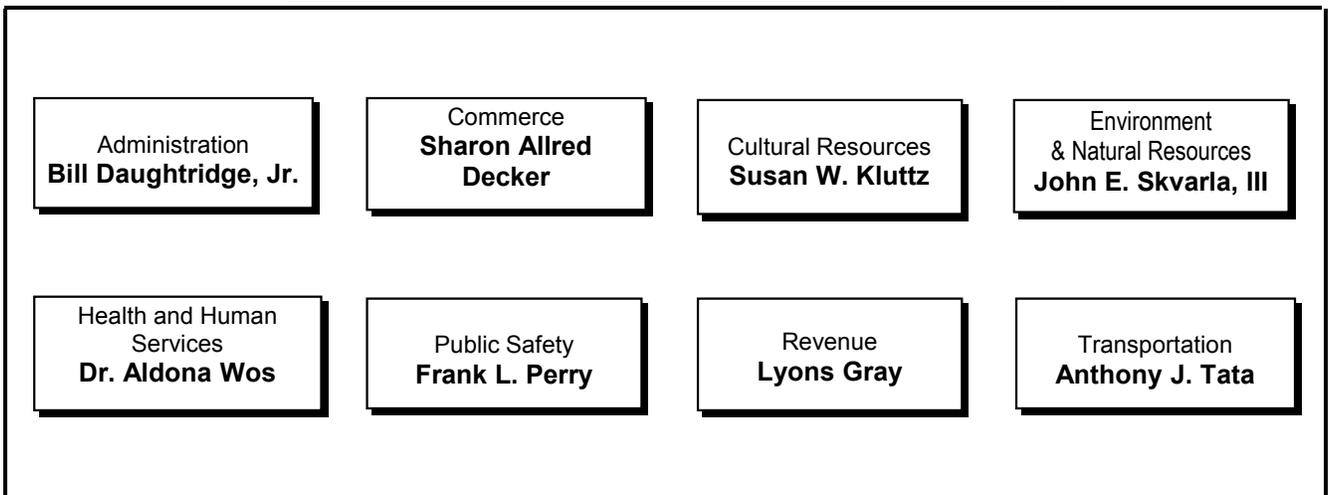
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT  
INCLUDING PRINCIPAL STATE OFFICIALS**

**EXECUTIVE BRANCH**

**Council of State**



**Cabinet Secretaries — Appointed by the Governor**



**Appointed by Governor,  
confirmed by Legislature**

**State Controller  
David T. McCoy**

**Appointed by State Board of  
Community Colleges**

**Dr. R. Scott Ralls  
President**

**Appointed by University  
Board of Governors**

**Thomas W. Ross  
President**

**LEGISLATIVE BRANCH**

**JUDICIAL BRANCH**

**General Assembly**

<b>Senate</b>	<b>House of Representatives</b>
---------------	---------------------------------

President Pro Tempore <b>Philip Berger</b>	Speaker <b>Thom Tillis</b>
Deputy Pres. Pro Tempore <b>Louis Pate</b>	Speaker Pro Tempore <b>Paul Stam</b>
Majority Leader <b>Harry Brown</b>	Majority Leader <b>Edgar V. Starnes</b>
Minority Leader <b>Martin L. Nesbitt, Jr.</b>	Minority Leader <b>Larry D. Hall</b>

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

**North Carolina Supreme Court**

Chief Justice  
**Sarah Parker**

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

Administrative  
Office of the Courts  
**Judge John W. Smith**  
Director

**Component Units**

<b>University of North Carolina System</b>	<b>Community Colleges</b>	<b>State Health Plan</b>
<b>Other Component Units</b>		

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# FINANCIAL SECTION



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2013, 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 35 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 46 percent and 0.85 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 5 percent, 3 percent, and 3 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the State Education Assistance Authority, which represent 13 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 University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare, which represent 2 percent, 2 percent, and 4 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 6 percent, 7 percent, and 8 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.
- Cash basis claims and benefits of the State Health Plan, which represent 16 percent of the expenses of the aggregate discretely presented component units.

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

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**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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

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

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

**Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2013, 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, 2013, the State implemented Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus*. Our opinion is not modified with respect to this matter.

**Other Matters*****Required Supplementary Information***

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

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**INDEPENDENT AUDITOR'S REPORT (CONCLUDED)**

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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 November 25, 2013 on our consideration of the State of North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of North Carolina's internal control over financial reporting and compliance. The report on internal control over financial reporting and on compliance and other matters will be published at a later date in the State of North Carolina's Single Audit Report.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 25, 2013



*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, 2013. 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 \$2.825 billion or 7.95% as a result of this year's operations. Net position of governmental activities and business-type activities increased by \$2.378 billion (or 6.64%) and \$447.088 million (or 166.59%), respectively. At year-end, net position of governmental activities and business-type activities totaled \$38.193 billion and \$178.718 million, respectively.
- Component units reported net position of \$22.054 billion, an increase of \$1.426 billion or 6.92% from the previous year. The majority of the net position increase is attributable to the University of North Carolina System, a major component unit.

#### *Fund Financial Statements:*

- The fund balance of the General Fund increased from \$1.049 billion at June 30, 2012 (as restated) to \$1.28 billion at June 30, 2013, an increase of 22.02%. The fund balance increase is due, in part, to the higher than expected growth in individual income taxes.
- The fund balance of the Highway Fund decreased 47.15% to \$332.46 million at June 30, 2013. The significant decrease in federal recovery funds along with no capital inflow from new bond issuances were the main contributors to the fund balance decrease.
- The fund balance of the Highway Trust Fund increased 62.62% to \$620.753 million at June 30, 2013. The fund balance increase is primarily due to the continued growth in new car sales, which led to an increase in the highway use tax.
- The Unemployment Compensation Fund reported net position of negative \$1.564 billion at June 30, 2013 compared to negative \$1.909 billion at June 30, 2012. The improvement in net position is attributable to the drop in the State's unemployment rate.
- Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 5.84% from the previous fiscal year to \$1.69 billion. As required by law, the Lottery's net profit of \$478.509 million was transferred to the General Fund to support educational programs.
- The net position of the N.C. Turnpike Authority (Authority) increased 5.94% to \$286.423 million at June 30, 2013. The Authority completed the final phase of the Triangle Expressway System, the State's first modern toll road.

#### *Capital Assets:*

- The State's investment in capital assets (net of accumulated depreciation) was \$43.948 billion, an increase of 4.39% from the previous fiscal year-end.
- This year's major capital asset additions were for state highway system construction (\$2.1 billion), toll road construction (\$101.7 million), computer software development at the Department of Health and Human Services (\$144 million), and construction of psychiatric hospitals (\$39.2 million). Also, the State completed and placed into service a new facility that will house the State Laboratory of Public Health and the Office of the Chief Medical Examiner.

#### *Long-term Debt:*

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.598 billion, a decrease of 3.56% from the previous fiscal year-end. The State issued \$250 million in limited obligation bonds reported in governmental activities and refinanced \$1.401 billion of its existing general obligation bonds to take advantage of lower interest rates. Additionally, the N.C. Turnpike Authority, a business-type activity, had additional borrowings of \$89.37 million from a federal transportation loan.
- In January 2013, 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 nine states with a triple-A rating from all three rating agencies.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (General Fund budgetary schedule, pension and other postemployment benefits funding progress and contributions) 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 and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Position (pages 50 and 51) presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 52 and 53) presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 74. Discretely presented component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 158 and 159).

### 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 182 begins the individual fund data for the nonmajor funds. The State's funds are divided into three categories (governmental, proprietary, and fiduciary) and they use different accounting approaches.

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

**Proprietary funds** – When the State charges customers for the services it provides, whether to outside customers or to agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, which is the same method used by private sector businesses. Enterprise funds are used to report activities for which fees are charged to external users for goods and services. The Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are our most significant enterprise funds. Internal service funds are used to report activities that provide goods and services to the State's other programs and activities on a cost-reimbursement basis, such as the State Property Fire Insurance Fund, the Motor Fleet Management Fund, Computing Services Fund, and the State Telecommunications Services Fund. Because the State's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 74 of this report.

#### **Required Supplementary Information**

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

#### **Other Supplementary Information**

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

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Over time, increases or decreases in net position serve as a useful indicator of whether a government's financial position is improving or deteriorating. The State's combined net position increased \$2.825 billion or 7.95% over the course of this fiscal year's operations. The net position of the governmental activities increased \$2.378 billion or 6.64% and business-type activities increased \$447.088 million or 166.59%. The following table was derived from the government-wide Statement of Net Position:

### Net Position June 30, 2013 and 2012 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2012-2013
	2013	2012 (as restated)	2013	2012 (as restated)	2013	2012 (as restated)	
Current and other non-							
current assets.....	\$ 9,872,121	\$ 9,090,488	\$3,235,850	\$ 3,301,993	\$ 13,107,971	\$ 12,392,481	5.77%
Capital assets, net.....	42,787,000	41,037,062	1,160,765	1,061,534	43,947,765	42,098,596	4.39%
<b>Total assets.....</b>	<b>52,659,121</b>	<b>50,127,550</b>	<b>4,396,615</b>	<b>4,363,527</b>	<b>57,055,736</b>	<b>54,491,077</b>	<b>4.71%</b>
Long-term liabilities.....	8,851,111	9,055,542	3,824,232	4,164,764	12,675,343	13,220,306	(4.12%)
Other liabilities.....	5,614,521	5,256,597	393,665	467,133	6,008,186	5,723,730	4.97%
<b>Total liabilities.....</b>	<b>14,465,632</b>	<b>14,312,139</b>	<b>4,217,897</b>	<b>4,631,897</b>	<b>18,683,529</b>	<b>18,944,036</b>	<b>(1.38%)</b>
Net position:							
Net investment in							
capital assets.....	40,432,694	38,705,712	410,050	391,831	40,842,744	39,097,543	4.46%
Restricted.....	792,966	703,781	995	1,468	793,961	705,249	12.58%
Unrestricted.....	(3,032,171)	(3,594,082)	(232,327)	(661,669)	(3,264,498)	(4,255,751)	23.29%
<b>Total net position.....</b>	<b>\$ 38,193,489</b>	<b>\$ 35,815,411</b>	<b>\$ 178,718</b>	<b>\$ (268,370)</b>	<b>\$ 38,372,207</b>	<b>\$ 35,547,041</b>	<b>7.95%</b>

The largest component of the State's net position (\$40.843 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway 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 (\$793.961 million). Net position is restricted when constraints placed on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net position, consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The government-wide statement of net position for governmental activities reflects a negative \$3.032 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 \$7.467 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2013, \$5.03 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, 2013, the State's governmental activities have significant unfunded liabilities for compensated absences of \$425.714 million, worker's compensation of \$150.251 million, and a court judgment payable of \$741.703 million (see Note 8 to the financial statements). In 2008, a Superior Court judge ruled that certain civil fines and penalties should have been remitted to North Carolina public schools and not diverted to other uses. These unfunded liabilities also contribute to the negative unrestricted net position balance for governmental activities.

The following financial information was derived from the government-wide Statement of Activities and reflects how the State's net position changed during the fiscal year:

**Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2013 and 2012**  
*(dollars in thousands)*

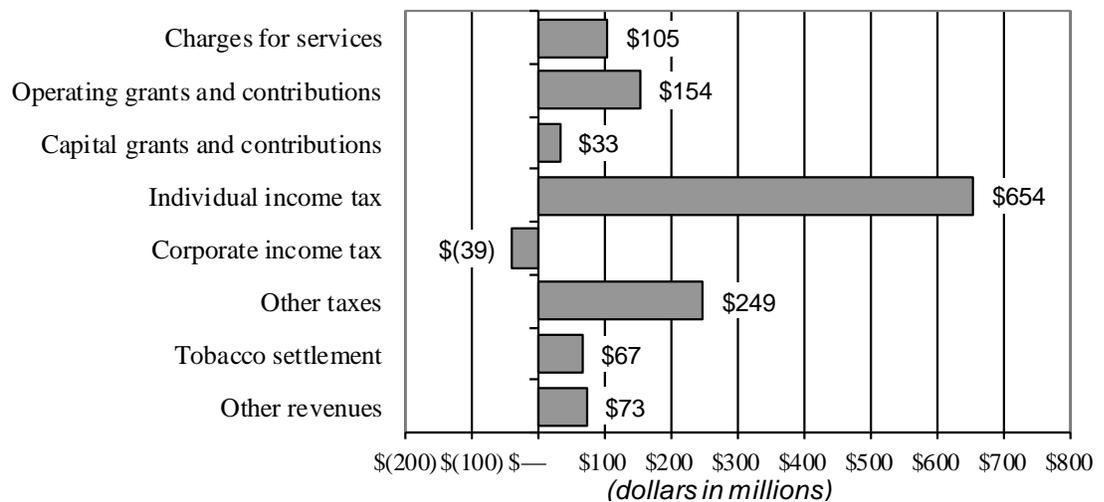
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2012-2013
	2013	2012 (as restated)	2013	2012 (as restated)	2013	2012 (as restated)	
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services.....	\$ 2,200,904	\$ 2,096,263	\$ 3,386,089	\$ 3,212,770	\$ 5,586,993	\$ 5,309,033	5.24%
Operating grants and contributions.....	15,759,693	15,605,227	1,423,526	1,966,023	17,183,219	17,571,250	(2.21%)
Capital grants and contributions.....	1,010,889	977,961	21,109	15,436	1,031,998	993,397	3.89%
<b>General revenues:</b>							
Taxes							
Individual income tax.....	11,113,597	10,459,307	—	—	11,113,597	10,459,307	6.26%
Corporate income tax.....	1,194,850	1,233,989	—	—	1,194,850	1,233,989	(3.17%)
Sales and use tax.....	5,556,484	5,530,046	—	—	5,556,484	5,530,046	0.48%
Gasoline tax.....	1,889,439	1,892,163	—	—	1,889,439	1,892,163	(0.14%)
Franchise tax.....	849,850	804,973	—	—	849,850	804,973	5.57%
Highway use tax.....	555,581	506,211	—	—	555,581	506,211	9.75%
Insurance tax.....	540,844	479,755	—	—	540,844	479,755	12.73%
Beverage tax.....	330,918	322,190	—	—	330,918	322,190	2.71%
Inheritance tax.....	113,721	57,839	—	—	113,721	57,839	96.62%
Tobacco products tax.....	287,340	293,597	—	—	287,340	293,597	(2.13%)
Other taxes.....	305,726	294,516	—	—	305,726	294,516	3.81%
Tobacco settlement.....	213,078	146,135	—	—	213,078	146,135	45.81%
Unrestricted investment earnings.....	13,621	(56,055)	—	—	13,621	(56,055)	124.30%
Miscellaneous.....	44,837	41,960	7	—	44,844	41,960	6.87%
<b>Total revenues.....</b>	<b>41,981,372</b>	<b>40,686,077</b>	<b>4,830,731</b>	<b>5,194,229</b>	<b>46,812,103</b>	<b>45,880,306</b>	<b>2.03%</b>
<b>Expenses:</b>							
General government.....	990,505	937,353	—	—	990,505	937,353	5.67%
Primary and secondary education.....	9,830,897	9,760,909	—	—	9,830,897	9,760,909	0.72%
Higher education.....	4,027,721	4,238,695	—	—	4,027,721	4,238,695	(4.98%)
Health and human services.....	18,258,538	17,752,493	—	—	18,258,538	17,752,493	2.85%
Economic development.....	595,494	667,106	—	—	595,494	667,106	(10.73%)
Environment and natural resources.....	493,775	470,965	—	—	493,775	470,965	4.84%
Public safety, corrections and regulation.....	2,945,856	2,976,448	—	—	2,945,856	2,976,448	(1.03%)
Transportation.....	2,491,032	2,400,599	—	—	2,491,032	2,400,599	3.77%
Agriculture.....	187,718	188,985	—	—	187,718	188,985	(0.67%)
Interest on long-term debt.....	233,325	282,542	—	—	233,325	282,542	(17.42%)
Unemployment compensation.....	—	—	2,496,445	3,283,900	2,496,445	3,283,900	(23.98%)
N.C. State Lottery.....	—	—	1,215,944	1,141,941	1,215,944	1,141,941	6.48%
EPA Revolving Loan.....	—	—	23,711	14,026	23,711	14,026	69.05%
N.C. Turnpike Authority.....	—	—	77,899	17,565	77,899	17,565	343.49%
Regulatory programs.....	—	—	76,455	69,980	76,455	69,980	9.25%
Insurance programs.....	—	—	17,591	38,701	17,591	38,701	(54.55%)
North Carolina State Fair.....	—	—	13,465	13,030	13,465	13,030	3.34%
Other business-type activities.....	—	—	13,400	12,084	13,400	12,084	10.89%
<b>Total expenses.....</b>	<b>40,054,861</b>	<b>39,676,095</b>	<b>3,934,910</b>	<b>4,591,227</b>	<b>43,989,771</b>	<b>44,267,322</b>	<b>(0.63%)</b>
Increase (decrease) in net position							
before contributions and transfers.....	1,926,511	1,009,982	895,821	603,002	2,822,332	1,612,984	74.98%
Contributions to permanent funds.....	2,834	3,297	—	—	2,834	3,297	(14.04%)
Transfers.....	448,733	401,740	(448,733)	(401,740)	—	—	0.00%
<b>Increase (decrease) in net position.....</b>	<b>2,378,078</b>	<b>1,415,019</b>	<b>447,088</b>	<b>201,262</b>	<b>2,825,166</b>	<b>1,616,281</b>	<b>74.79%</b>
Net position - beginning - restated.....	35,815,411	34,400,392	(268,370)	(469,632)	35,547,041	33,930,760	4.76%
Net position - ending.....	<u>\$ 38,193,489</u>	<u>\$ 35,815,411</u>	<u>\$ 178,718</u>	<u>\$ (268,370)</u>	<u>\$ 38,372,207</u>	<u>\$ 35,547,041</u>	<u>7.95%</u>

**Governmental Activities**

For fiscal year 2013, revenues outpaced expenses and when combined with transfers from the State’s business-type activities, an increase in net position of \$2.378 billion (or 6.64%) resulted for governmental activities. Total revenues increased by 3.18% (\$1.3 billion) while total expenses increased more slowly at 0.95% (\$378.77 million). The increase in total revenues is attributable mainly to growth in individual income taxes. Taxpayers had an incentive to shift income into tax year 2012 because of the expectation of higher future taxes. In addition, numerous other taxes (e.g., sales and use, franchise, highway use, insurance, beverage, and inheritance taxes) had higher collections during the current fiscal year. Corporate income taxes decreased slightly because of tax settlements recognized in the prior year. The increase in individual income taxes and other taxes is an indication that the State’s economy is turning in a positive direction.

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2012 and 2013:

**Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2012 and 2013**

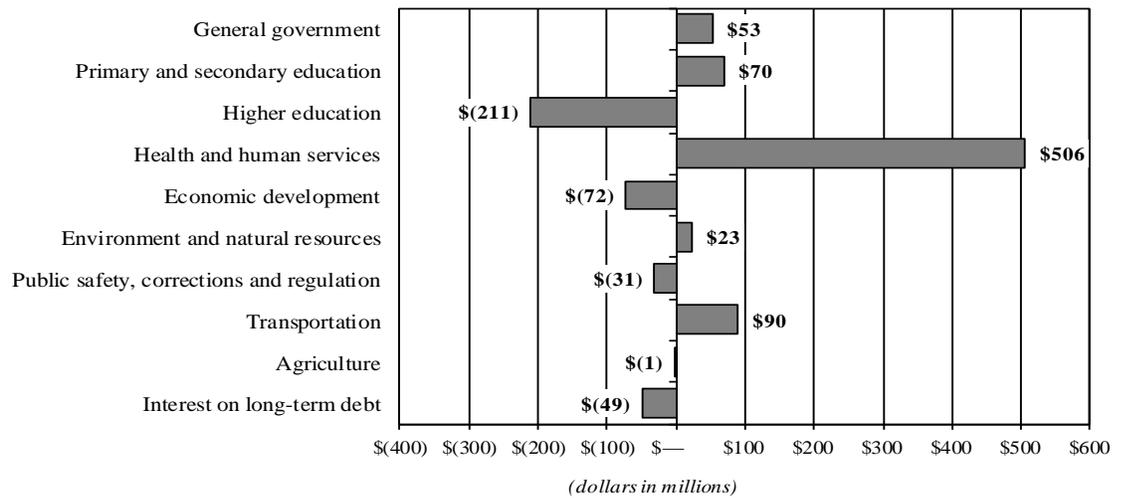


For fiscal year 2013, spending increases in the functional areas of health and human services, transportation, primary and secondary education, environment and natural resources, and general government were mostly offset by spending decreases in the State’s other functional areas. The growth in health and human services is primarily due to increased spending for Medicaid (the State’s largest public assistance program). Medicaid enrollment and utilization increased during the current period. Higher education spending decreased during the current period due to larger distributions of higher education bond proceeds in fiscal year 2012.

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

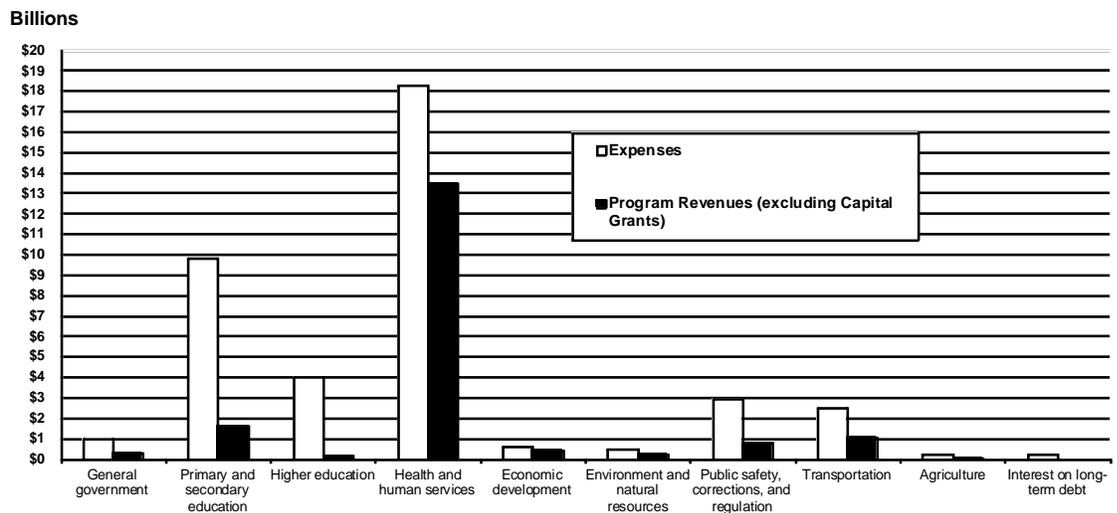
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2012 and 2013:

**Dollar Change in Governmental Activities Functional Expenses  
Between Fiscal Years 2012 and 2013**



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, 2013**



**Business-type  
Activities**

Business-type activities reflect an overall increase in net position of \$447.088 million or 166.59%, primarily because of the financial results of the Unemployment Compensation Fund. The net position increase of \$345.302 million in the Unemployment Compensation Fund is explained by the drop in the State’s unemployment rate. The net position increase of \$16.066 million for the N.C. Turnpike Authority is due primarily to transfers in from the Highway Trust Fund. The net position increase of \$66.019 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, 2013, the State's governmental funds reported combined fund balances of \$3.789 billion, an increase of 9.01% from the prior fiscal year-end (as restated). Of this amount, \$158.821 million is classified as unassigned fund balance in the General Fund (available for spending at the State's discretion). The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (e.g., inventories), 2) restricted for particular purposes by external sources, 3) committed for particular purposes by the N.C. General Assembly, or 4) assigned for particular purposes by the Office of State Budget and Management. The major governmental funds are discussed individually below.

#### **General Fund**

The General Fund is the chief operating fund of the State. The fund balance of the General Fund increased 22.02% to \$1.28 billion at June 30, 2013. The fund balance increase is due, in part, to the higher than expected growth in individual income taxes. Individual income tax and corporate income tax increased by 6.26% and 2.5%, respectively, while sales and use tax revenues increased by 0.68%. The number of employed persons in North Carolina has steadily increased in 2013, which has led to increased withholdings by companies remitting payroll taxes. North Carolina's unemployment rate fell from 9.6% in June 2012 to 8.8% in June 2013 but remains higher than the national average (7.3% in August 2013). Additionally, the expectation of higher federal income taxes in tax year 2013 provided an incentive for households to shift income into tax year 2012. Federal tax policy was not decided until the end of December 2012. Estimated individual income tax payments for January 2013 and final payments remitted in April 2013 were 42% and 24% higher, respectively, than the same month in 2012.

One of the major budget drivers for the General Fund is the Medicaid Program. On the budget basis, appropriation expenditures for Medicaid increased 16.2% in fiscal year 2012-13 to \$3.52 billion. In March 2013, budget writers were confronted with a significant budget gap in the State's Medicaid budget due to increased enrollment and utilization, a one-time state reimbursement of federal drug rebate payments, and a miscalculation of federal receipts. To ensure adequate funding through July 2013, the General Assembly authorized a total of \$496 million in additional Medicaid funding (Session Law 2013-56 and Session Law 2013-184). Sources of funding to cover the Medicaid shortfall included departmental receipts, funds diverted from other divisions of the Department of Health and Human Services, \$308.1 million in unreserved fund balance (budgetary basis), and fiscal year 2012-13 over collections. The specific actions taken in fiscal year 2012-13 to mitigate the growing population and expenditures in Medicaid included 1) a restructure of some fee for service payment rates, 2) pharmacy improvements, 3) maintaining the 2012 effective rate reduction plan, 4) expansion of North Carolina's waiver for behavioral health services, 5) enhanced care management of the Medicaid population by Community Care of North Carolina, and 6) modification of personal care services eligibility policies. Medicaid enrollment remained constant at 15.8% of North Carolina's population in fiscal year 2012-13.

#### ***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 nontax revenue. In extremely rare cases, the General Assembly has held special sessions to formally amend the authorized and certified state appropriation budget.

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

#### *Variance – Original and Final Budget*

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process and the budgeting of American Recovery and Reinvestment Act (ARRA) funds for the fiscal year. The original budget for fiscal year 2012-13 was prepared approximately 18 months prior to the final budget existing at June 30, 2013. 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 2012 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 2012-13 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 2011-12 totaled \$214.13 million.
- 3) Allocation of statewide reserves to agencies and universities for the purposes of retirement and hospitalization formula 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.
- 5) Budgeting of federal ARRA funds that increased the final revenue and expenditure budgets.

#### *Variance - Final Budget and Actual Results*

Actual total revenue collected (both tax and non-tax, excluding departmental) exceeded budgeted amounts in fiscal year 2012-13. This result occurred because North Carolina adopted a cautious revenue outlook, the economy performed slightly better than expected, and taxpayers shifted income into tax year 2012 due to the expectation of higher future taxes. These factors mainly translated into higher than anticipated individual and corporate income tax collections, two of North Carolina's largest and most volatile revenue sources. In contrast, sales and use tax collections finished fiscal year 2012-13 below forecast as consumer spending remained below anticipated levels.

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

### **Highway Fund**

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

The fund balance of the Highway Fund decreased from \$629.07 million at June 30, 2012 to \$332.46 million at June 30, 2013, a decrease of 47.15%. A significant decrease in federal recovery funds along with no capital inflow from new bond issuances were the main contributors to this reduction. Total revenues were \$3.292 billion, an increase of 1.63%. While federal highway fund billings and gasoline tax revenue increased, the decrease in federal recovery funds mostly offset the growth of these and other revenue sources. By the end of fiscal year 2012, over 96% of federal recovery funds for highway infrastructure had been exhausted. As a result, federal stimulus billings for 2013 were less than the previous year. Total expenditures were \$3.394 billion, an increase of \$ 7.01%. The reallocation of Powell Bill payments to municipalities to the Highway Fund due to Session Law 2013-183 increased expenditures in the fund by \$47.55 million. Increased expenditures in transportation infrastructure and debt service also contributed to the decrease in fund balance.

The State issued \$179.54 million in grant anticipation revenue vehicle bonds (GARVEE's) in January 2012. This innovative financing tool was used to accelerate the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2013, \$40.523 million of the GARVEE proceeds were unspent.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.05 million in 2000 to 9.85 million in 2013, an increase of 22.36%. The U.S. Census estimates North Carolina's population growing to approximately 12.2 million by 2030, which would place the State as the seventh most populated state in the country. According to the 2012 Report on the Condition of the State Highway System prepared by the N.C. Division of Highways, over a 10-year period (2002 to 2011), paved lane miles grew by 10% while bridge deck area grew by approximately 21%. During this same 10-year period, vehicle miles traveled increased by 12%. While the recent recession slowed the growth in vehicle miles traveled, current rates indicate a return to pre-recession levels. This increase places a heavier burden on the existing infrastructure and accentuates the need for additional capacity, safety, and maintenance funding to address the deterioration in service created by the increase in traffic. Furthermore, many of the State's highways were built as farm-to-market roads and were not designed to handle the heavy traffic volumes of today, and other highways such as the interstate highway system, which has celebrated its 50th 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. Session Law 2012-142 reinstated the cap on the motor fuels tax at a rate of 37.5 cents per gallon effective July 1, 2012 until June 30, 2013. Session Law 2013-316 continued the cap on the motor fuels tax at 37.5 cents per gallon effective until June 30, 2015.

### **Highway Trust Fund**

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet a specific set of highway construction needs in North Carolina. Additionally, the Highway Trust Fund provides supplemental allocations for secondary road construction, supplemental assistance to municipalities for local street projects, and pays the debt service on the State's general obligation bonds issued for highway purposes. The principal

revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees. The enabling legislation also specifies that a designated amount will be transferred each year to the General Fund. The legislation was amended in 2008 to also require annual transfers to the N.C. Turnpike Authority to pay debt service or financing expenses for specified toll road construction projects (see Note 10(B) to the financial statements). The amounts transferred to the General Fund for fiscal years 2013 and 2012 were \$27.596 million and \$76.721 million, respectively. The budget legislation for fiscal year 2013 reduced the transfer amount to the General Fund.

The fund balance of the Highway Trust Fund increased from \$381.729 million at June 30, 2012 to \$620.753 million at June 30, 2013, an increase of 62.62%. The fund balance increase was primarily due to continued growth in new car sales which led to an increase in the highway use tax. Gasoline consumption also rose slightly from the previous year contributing to the overall increase. Total revenues were \$1.128 billion, an increase of 5.53%. Total transportation expenditures were \$759.939 million, a decrease of 1.11%. The reallocation of Powell Bill payments to municipalities to the Highway Fund due to Session Law 2013-183 decreased expenditures in the fund by \$47.55 million. This was offset by increased expenditures in capital outlay and bond principle payments resulting in the overall decrease.

The 2012 Report on the Condition of the State Highway System also noted that since passage of the Highway Trust Fund in 1989, the NCDOT has paved over 13,000 miles of unpaved secondary roads, leaving only 4,357 miles of secondary roads to be paved. In view of the fact that the paved secondary road system has not kept up with the demands of increased urbanization and traffic, the 2006 Session of the General Assembly approved changes in the General Statutes that govern the use of secondary road construction funds. Beginning with fiscal year 2010-11, secondary road allocations to the counties are based on the total number of secondary road miles in that county in proportion to the total state maintained secondary road mileage. Projects slated after July 1, 2015 will be prioritized on a statewide basis instead of a county-wide basis.

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

**Enterprise  
Funds**

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

**Unemployment Compensation Fund**

The Unemployment Compensation Fund (Trust Fund) reported net position of negative \$1.564 billion at June 30, 2013 compared to negative \$1.909 billion at June 30, 2012. The improvement in net position is explained primarily by the drop in the State's unemployment rate from 9.6% in June 2012 to 8.8% in June 2013. The Trust Fund's operating margin (operating revenues less operating expenses) was negative \$891.32 million this year compared to negative \$1.719 billion in 2012. Unemployment benefit expenses (both state and federal) decreased 23.99% in fiscal year 2012-13 to \$2.426 billion, primarily due to claimants exhausting their maximum allowable benefits and a reduction in the number of new initial claims.

In fiscal year 2012-13, nonoperating revenues decreased 29.61% to \$1.329 billion due to a decrease in federal funding. Federal funding is only received for expenses incurred, so the decrease in expenses (resulting from fewer claims incurred) caused the decrease in noncapital grants revenue (reimbursement of those expenses).

In February 2009, because of depleted cash balances, the State began borrowing from the U.S. Treasury to ensure the uninterrupted payment of state unemployment benefits. At June 30, 2013, the repayable advances from the State's Federal Unemployment Account totaled \$2.155 billion compared to \$2.566 billion at the previous fiscal year-end, a 16.02% decrease. For the tax year 2013, the Federal Unemployment Tax increased by 0.6% because the State had an outstanding loan in January for three consecutive years and did not pay back the borrowing. 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 \$142.036 million (classified as gain on extinguishment of debt). The Federal Unemployment Tax will increase by 0.3% for each succeeding year until the loan is repaid.

The interest rate for calendar year 2013 was 2.58%. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. The required interest payment of \$62.5 million was made on September 30, 2013. A 20% surcharge on unemployment contributions, which has been in effect since January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is deposited into the State Reserve Fund and one of the allowable uses is to pay the interest on the borrowing. The other allowable use is to pay benefits in lieu of borrowing. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger "off" level.

In calendar year 2013, Session Law 2013-2 will be implemented which will begin to have a significant impact towards decreasing the outstanding balance of the loan. This law is designed to generate revenue (by increasing unemployment taxes on employers) and reduce expenses (by reducing the maximum weekly benefit amount and the maximum duration of unemployment benefits) along with making other changes that impact employers and claimants. The Law will be implemented in segments throughout the calendar year with the full effects not being seen until calendar year 2014.

**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 \$478.509 million to the General Fund in 2013 to support educational programs for the State. The amount transferred in 2012 was \$459.469 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 2012-13, net ticket sales increased 5.84% from the previous fiscal year to \$1.69 billion. Significant financial highlights include the following: awarded \$1 million or more to an NCEL player for the 129<sup>th</sup> time; increased the number of retailers to 6,839, representing a 1% increase over the prior year; and released 49 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.01 billion.

The NCEL's 2013-14 budget provides for a projected \$462 million transfer to the General Fund, representing a 4.5% increase from the previous year's budget. As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 67% to support reduction of class size in early grades and to support pre-kindergarten programs for at-risk four-year-olds who would otherwise not be served in high quality settings.
2. 23% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

#### **N.C. Turnpike Authority**

The North Carolina Turnpike Authority (NCTA) was created in 2002 by the General Assembly in response to concerns about rapid growth, heavy congestion and dwindling resources. It is authorized to study, plan, develop, construct, operate and maintain up to nine turnpike projects. Major accomplishments for the NCTA for fiscal year 2012-13 included the following:

- The Triangle Expressway System, the State's first modern toll road, is approximately 18.8 miles of new highway construction. The project was constructed and opened in three phases. The third and final phase opened to toll traffic on January 2, 2013. The Triangle Expressway project was delivered on schedule and under budget. During the first full quarter of toll operations (January 2013 through March 2013), toll revenues exceeded projections by 29%, while operating expenses exceeded projections by only 1%.
- The NCTA has completed the financing for the Monroe Connector System, a 20-mile toll road in Mecklenburg and Union counties. However, construction has been delayed due to litigation challenging the project's environmental documentation.

Funding for administrative expenses is being advanced as needed from the Highway Trust Fund to be repaid from NCTA revenue collections. Interest on the advances will begin to accrue one year after the NCTA begins collecting tolls on a 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. In 2008, the General Assembly enacted legislation authorizing annual transfers from the Highway Trust Fund to the NCTA to pay debt service and fund required reserves on bonds issued to finance turnpike projects. For fiscal years 2012 through 2014, the N.C. General Assembly appropriated \$49 million annually for the Triangle Expressway and Monroe Connector projects.

#### **EPA Revolving Loan Fund**

The net position of the EPA Revolving Loan Fund increased by \$66.019 million or 5.33% from the prior fiscal year-end. Operating income was \$11.914 million (operating revenues less operating expenses). Net nonoperating revenues were \$55.687 million and consisted primarily of federal capitalization grants, which were used to provide grants and loans for water infrastructure projects.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2013, the State's investment in capital assets was \$43.948 billion, an increase of 4.39% 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	
	2012		2012		2012	
	2013	(as restated)	2013	(as restated)	2013	(as restated)
Land and permanent easements.....	\$ 15,661,789	\$ 15,040,007	\$ 154,884	\$ 143,664	\$ 15,816,673	\$ 15,183,671
Buildings.....	2,779,042	2,671,438	31,821	28,611	2,810,863	2,700,049
Machinery and equipment.....	591,715	568,438	6,682	6,190	598,397	574,628
Infrastructure:						
State highway system.....	21,062,979	20,330,946	794,705	183,936	21,857,684	20,514,882
Other infrastructure.....	160,735	161,713	4,976	4,907	165,711	166,620
Computer software.....	29,016	17,198	26	45	29,042	17,243
Art, literature, and other artifacts.....	99,179	91,135	—	—	99,179	91,135
Construction in progress.....	1,948,987	1,872,244	167,671	694,181	2,116,658	2,566,425
Computer software in development.....	453,558	283,943	—	—	453,558	283,943
<b>Total.....</b>	<b>\$ 42,787,000</b>	<b>\$ 41,037,062</b>	<b>\$ 1,160,765</b>	<b>\$ 1,061,534</b>	<b>\$ 43,947,765</b>	<b>\$ 42,098,596</b>
Total percent change between fiscal years 2012 and 2013	4.26 %		9.35 %		4.39 %	

The largest component of capital assets is the state highway system. North Carolina has a 79,492 mile highway system, making it the second largest state-maintained highway system in the nation. The most recent report on the condition of the state highway system (December 2012) noted that while the system continues to grow, the traditional highway maintenance funds have increased, but not enough to keep up with inflation and system growth.

The major capital asset activity during the current fiscal year included the following:

- The N.C. Department of Transportation (DOT) had construction outlays of \$2.1 billion (including land improvements) for state highway projects.
- The N.C. Turnpike Authority (business-type activity) completed the final phase of the Triangle Expressway, the State's first modern toll road. Additionally, year-end construction in progress for the Monroe Connector System, a toll project in eastern Mecklenburg County, was \$110.4 million.
- The Department of Health and Human Services (DHHS) is constructing new psychiatric hospitals to replace its aging state-operated psychiatric hospitals. DHHS 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 \$149 million. Also, DHHS completed and placed into service a new facility that will house the State Laboratory of Public Health and the Office of the Chief Medical Examiner (construction cost of \$68 million). The DHHS construction projects are being financed by special indebtedness bonds.
- DHHS is replacing major legacy IT systems. NCTracks, the new multi-payer Medicaid Management Information System, will facilitate provider enrollment, consolidate claims processing activities, and support healthcare administration. NCFAST, 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 NCTracks and NCFAST totaled \$357.7 million.

As further detailed in Note 21(E) to the financial statements, the State has commitments of \$2.96 billion for the construction of highway infrastructure, which are expected to be financed by gasoline tax collections, motor vehicle fees, federal funds and debt proceeds. Other commitments of \$595.76 million for the construction and improvement of state government facilities are expected to be financed primarily by debt proceeds, state appropriations, and federal funds. More detailed information about the State's capital assets is presented in Note 5 to the financial statements.

**Long-term  
Debt**

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.598 billion, a decrease of 3.56% 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		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
General obligation bonds.....	\$ 3,999,580	\$ 4,470,500	\$ —	\$ —	\$ 3,999,580	\$ 4,470,500
Special Indebtedness:						
Lease-purchase revenue bonds.....	20,915	30,915	—	—	20,915	30,915
Certificates of participation.....	508,500	557,895	—	—	508,500	557,895
Limited obligation bonds.....	1,993,740	1,795,090	—	—	1,993,740	1,795,090
GARVEE bonds.....	454,820	512,085	145,535	145,535	600,355	657,620
Revenue bonds.....	—	—	1,058,458	1,081,183	1,058,458	1,081,183
Notes payable.....	39,312	35,691	377,466	286,818	416,778	322,509
Total .....	<u>\$ 7,016,867</u>	<u>\$ 7,402,176</u>	<u>\$ 1,581,459</u>	<u>\$ 1,513,536</u>	<u>\$ 8,598,326</u>	<u>\$ 8,915,712</u>
Total percent change between fiscal years 2012 and 2013		(5.21)%		4.49 %		(3.56)%

During the 2012-13 fiscal year, the State issued \$250 million in limited obligation bonds reported in governmental activities. The proceeds of the limited obligation bonds will be used to finance various state and university capital improvement projects, which were authorized for special indebtedness financing by previous sessions of the General Assembly. Additionally, the N.C. Turnpike Authority (Authority), a business-type activity, had additional borrowings of \$89.37 million from a federal transportation loan. The federal loan proceeds were used to finance the remaining construction costs of the Triangle Expressway, a toll road in Durham and Wake counties.

Additionally, the State refinanced \$1.401 billion of its existing general 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 \$58 million. As part of the issuances of general obligation refunding bonds, the State terminated the remaining debt-related derivative instruments (both basis swaps and swaptions). A portion of the proceeds of the refunding bond issues were used to pay the cost of the terminations with the counterparties. The termination of these transactions will benefit the State due to the fact that it will not be required to enter into a higher than market fixed rate of interest in the future.

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

The State's total long-term debt (bonds, special indebtedness, and notes payable) has increased significantly in recent years, rising from \$3.478 billion in 2002 to \$8.598 billion in 2013, in part due to large issuances for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The following is a summary of recent debt authorizations.

*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 bonds proceeds 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:

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

These ratings are the highest attainable from all three rating agencies. In January 2013, all three rating agencies affirmed the triple-A credit rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only nine 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 2013 Session of the General Assembly enacted a \$20.6 billion budget for fiscal year 2013-14, a 1.98% increase from appropriation expenditures for fiscal year 2012-13. The General Assembly also enacted a variety of major tax changes (Session Law 2013-316). Individual income tax rates will be reduced from current rates (6%, 7%, and 7.75%) to a single rate of 5.8% in 2014 and 5.75% in 2015. Corporate income tax rates will be reduced from 6.9% to 6% in 2014 and 5% in 2015. If state revenue targets are met, the corporate income tax rate will be further reduced to 4% in 2016 and 3% in 2017. The sales tax was expanded to include electricity, piped natural gas, some service contracts, and entertainment activities. In addition, a number of special exemptions and preferential rates were repealed. The estate tax was also repealed effective January 1, 2013.

### State Health Plan

The Board of Trustees of the State Health Plan for Teachers and State Employees approved benefit changes to increase member options, encourage member engagement in healthy lifestyles, and constrain future State Health Plan costs. The new options will go into effect January 1, 2014 and resulted in a \$4.6 billion reduction in the State's actuarial accrued liability for other postemployment benefits as of the December 31, 2012 valuation.

### Prison Closings

In connection with the Justice Reinvestment Act (Session Law 2011-192), five prisons are scheduled to close during the 2013-14 fiscal year. This act made significant changes in the sentencing laws and correctional policies of the State. The intent of this legislation was to reduce spending on incarceration and to redirect the savings into community-based treatment alternatives that are proven to reduce criminality.

## ***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, 2013

(Dollars in Thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents (Note 3).....	\$ 3,876,113	\$ 542,905	\$ 4,419,018	\$ 3,453,373
Investments (Note 3).....	243,124	156,755	399,879	2,769,715
Securities lending collateral (Note 3).....	519,574	95,379	614,953	—
Receivables, net (Note 4).....	3,717,204	649,959	4,367,163	1,201,752
Due from component units (Note 18).....	1,908	—	1,908	14,505
Due from primary government (Note 18).....	—	—	—	167,338
Internal balances.....	43,803	(43,803)	—	—
Inventories.....	194,380	1,470	195,850	119,785
Prepaid items.....	1,102	5,130	6,232	85,696
Advances to component units.....	3,441	—	3,441	—
Notes receivable, net (Note 4).....	89,468	939,711	1,029,179	3,983,341
Investment in joint venture.....	—	—	—	47,967
Equity interest in component unit.....	163,748	—	163,748	—
Deferred charges.....	—	29,083	29,083	37,535
Securities held in trust.....	49,508	—	49,508	—
Pension assets (Note 12).....	4,831	—	4,831	—
Restricted/designated cash and cash equivalents (Note 3).....	446,261	1,764	448,025	2,239,869
Restricted investments (Note 3).....	517,656	857,497	1,375,153	5,134,310
Restricted due from primary government (Note 18).....	—	—	—	44,359
Restricted due from component units (Note 18).....	—	—	—	5,967
Capital assets-nondepreciable (Note 5).....	18,163,513	322,555	18,486,068	2,020,951
Capital assets-depreciable, net (Note 5).....	24,623,487	838,210	25,461,697	13,304,490
<b>Total Assets</b> .....	<b>52,659,121</b>	<b>4,396,615</b>	<b>57,055,736</b>	<b>34,630,953</b>
<b>Deferred Outflows of Resources</b>				
Accumulated decrease in fair value of hedging derivatives.....	—	—	—	120,090
<b>Total Deferred Outflows of Resources</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>120,090</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities.....	1,920,826	152,001	2,072,827	955,888
Medical claims payable.....	914,053	—	914,053	245,331
Unemployment benefits payable.....	—	31,241	31,241	—
Tax refunds payable.....	1,441,372	—	1,441,372	—
Obligations under securities lending.....	528,877	98,088	626,965	—
Interest payable.....	70,902	79,473	150,375	67,800
Short-term debt (Note 6).....	—	—	—	45,655
Due to component units (Note 18).....	211,697	—	211,697	20,472
Due to primary government (Note 18).....	—	—	—	1,908
Unearned revenue.....	437,938	31,759	469,697	327,203
Advance from primary government.....	—	—	—	3,441
Deposits payable.....	3,750	1,103	4,853	14,615
Funds held for others.....	85,106	—	85,106	2,067,781
Hedging derivatives liability (Note 7).....	—	—	—	120,090
Long-term liabilities (Note 8):				
Due within one year.....	624,675	1,324,087	1,948,762	606,038
Due in more than one year.....	8,226,436	2,500,145	10,726,581	8,220,940
<b>Total Liabilities</b> .....	<b>14,465,632</b>	<b>4,217,897</b>	<b>18,683,529</b>	<b>12,697,162</b>

**STATEMENT OF NET POSITION**

June 30, 2013

*Exhibit A-1*

(Dollars in Thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Net Position</b>				
Net investment in capital assets.....	40,432,694	410,050	40,842,744	10,970,141
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	90,676	—	90,676	—
Higher education.....	549	—	549	2,220,937
Expendable:				
Primary and secondary education.....	9,000	—	9,000	—
Higher education.....	389,024	—	389,024	3,223,147
Health and human services.....	16,997	—	16,997	19
Economic development.....	45,298	—	45,298	798,429
Environment and natural resources.....	45,064	—	45,064	—
Public safety, corrections, and regulation.....	59,612	—	59,612	—
Transportation.....	9,864	—	9,864	—
Other purposes.....	126,882	995	127,877	—
Unrestricted.....	(3,032,171)	(232,327)	(3,264,498)	4,841,208
<b>Total Net Position.....</b>	<b>\$ 38,193,489</b>	<b>\$ 178,718</b>	<b>\$ 38,372,207</b>	<b>\$ 22,053,881</b>

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

**STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General government.....	\$ 990,505	\$ 228,054	\$ 37,006	\$ 5,276	\$ (720,169)
Primary and secondary education.....	9,830,897	18,416	1,562,585	—	(8,249,896)
Higher education.....	4,027,721	113,424	28,358	—	(3,885,939)
Health and human services.....	18,258,538	331,559	13,144,841	—	(4,782,138)
Economic development.....	595,494	29,584	364,751	—	(201,159)
Environment and natural resources.....	493,775	138,562	59,227	15,885	(280,101)
Public safety, corrections, and regulation.....	2,945,856	604,447	214,332	2,356	(2,124,721)
Transportation.....	2,491,032	706,231	317,580	978,299	(488,922)
Agriculture.....	187,718	30,627	31,013	9,073	(117,005)
Interest on long-term debt.....	233,325	—	—	—	(233,325)
Total Governmental Activities.....	<u>40,054,861</u>	<u>2,200,904</u>	<u>15,759,693</u>	<u>1,010,889</u>	<u>(21,083,375)</u>
<b>Business-type Activities:</b>					
Unemployment Compensation.....	2,496,445	1,535,068	1,329,277	—	367,900
N.C. State Lottery.....	1,215,944	1,695,009	444	—	479,509
EPA Revolving Loan.....	23,711	19,490	71,822	—	67,601
N.C. Turnpike Authority.....	77,899	13,499	14,262	13,529	(36,609)
Regulatory programs.....	76,455	78,561	1,326	—	3,432
Insurance programs.....	17,591	19,275	5,135	—	6,819
North Carolina State Fair.....	13,465	14,506	400	—	1,441
Other business-type activities.....	13,400	10,681	860	7,580	5,721
Total Business-type Activities.....	<u>3,934,910</u>	<u>3,386,089</u>	<u>1,423,526</u>	<u>21,109</u>	<u>895,814</u>
Total Primary Government.....	<u>\$ 43,989,771</u>	<u>\$ 5,586,993</u>	<u>\$ 17,183,219</u>	<u>\$ 1,031,998</u>	<u>\$ (20,187,561)</u>
<b>Component Units:</b>					
University of North Carolina System.....	\$ 9,914,064	\$ 6,339,500	\$ 1,418,809	\$ 242,284	\$ (1,913,471)
Community Colleges.....	2,230,808	321,301	924,761	195,944	(788,802)
State Health Plan.....	2,653,980	2,904,577	63,132	—	313,729
Other component units.....	1,111,353	555,963	567,617	8,875	21,102
Total Component Units.....	<u>\$ 15,910,205</u>	<u>\$ 10,121,341</u>	<u>\$ 2,974,319</u>	<u>\$ 447,103</u>	<u>\$ (2,367,442)</u>

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

## STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2013  
(Dollars in Thousands)

Exhibit A-2

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in Net Position:</b>				
Net (expense) revenue	\$ (21,083,375)	\$ 895,814	\$ (20,187,561)	\$ (2,367,442)
General Revenues:				
Taxes:				
Individual income tax.....	11,113,597	—	11,113,597	—
Corporate income tax.....	1,194,850	—	1,194,850	—
Sales and use tax.....	5,556,484	—	5,556,484	—
Gasoline tax.....	1,889,439	—	1,889,439	—
Franchise tax.....	849,850	—	849,850	—
Highway use tax.....	555,581	—	555,581	—
Insurance tax.....	540,844	—	540,844	—
Beverage tax.....	330,918	—	330,918	—
Inheritance tax.....	113,721	—	113,721	—
Tobacco products tax.....	287,340	—	287,340	—
Other taxes.....	305,726	—	305,726	—
Tobacco settlement.....	213,078	—	213,078	—
Unrestricted investment earnings.....	13,621	—	13,621	—
State aid.....	—	—	—	3,640,788
Miscellaneous.....	44,837	7	44,844	2,543
Contributions to permanent funds.....	2,834	—	2,834	—
Contributions to endowments.....	—	—	—	150,554
Transfers.....	448,733	(448,733)	—	—
Total general revenues, contributions, and transfers.....	23,461,453	(448,726)	23,012,727	3,793,885
Change in net position.....	2,378,078	447,088	2,825,166	1,426,443
Net position — July 1, as restated (Note 23).....	35,815,411	(268,370)	35,547,041	20,627,438
Net position — June 30.....	\$ 38,193,489	\$ 178,718	\$ 38,372,207	\$ 22,053,881

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*FUND FINANCIAL  
STATEMENTS*

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2013

Exhibit B-1

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents (Note 3).....	\$ 1,995,553	\$ 474,531	\$ 597,886	\$ 714,752	\$ 3,782,722
Investments (Note 3).....	4,902	—	—	209,667	214,569
Securities lending collateral (Note 3).....	339,922	44,872	53,289	76,221	514,304
Receivables, net: (Note 4)					
Taxes receivable.....	1,908,438	135,345	43,469	2,145	2,089,397
Accounts receivable.....	236,899	20,052	82	20,574	277,607
Intergovernmental receivable.....	1,216,211	84,768	—	1,456	1,302,435
Interest receivable.....	4,669	215	190	299	5,373
Other receivables.....	—	3,768	—	—	3,768
Due from other funds (Note 10).....	28,269	8,112	—	7,025	43,406
Due from component units (Note 18).....	169	—	—	1,014	1,183
Inventories.....	75,153	89,484	—	29,398	194,035
Advances to other funds (Note 10).....	—	—	23,606	—	23,606
Advances to component units.....	—	3,441	—	—	3,441
Notes receivable, net (Note 4).....	47,980	789	62	40,637	89,468
Securities held in trust.....	400	3,611	—	45,497	49,508
Restricted/designated cash and cash equivalents (Note 3).....	227,520	—	—	218,741	446,261
Restricted investments (Note 3).....	—	40,523	—	477,133	517,656
Total Assets.....	<u>\$ 6,086,085</u>	<u>\$ 909,511</u>	<u>\$ 718,584</u>	<u>\$ 1,844,559</u>	<u>\$ 9,558,739</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 546,477	\$ 248,246	\$ 32,669	\$ 38,150	\$ 865,542
Accrued payroll.....	4,078	40,450	—	191	44,719
Intergovernmental payable.....	642,497	176,480	—	5,727	824,704
Claims payable.....	—	—	—	50,690	50,690
Medical claims payable.....	914,053	—	—	—	914,053
Tax refunds payable.....	1,436,997	3,281	1,094	—	1,441,372
Obligations under securities lending.....	346,088	44,751	55,770	76,918	523,527
Due to fiduciary funds (Note 10).....	86,379	12,214	—	—	98,593
Due to other funds (Note 10).....	26,861	4,605	8,038	358	39,862
Due to component units (Note 18).....	169,937	—	—	41,760	211,697
Deferred revenue.....	609,229	27,321	260	28,843	665,653
Deposits payable.....	3,746	—	—	4	3,750
Funds held for others.....	19,808	19,703	—	45,595	85,106
Total Liabilities.....	<u>4,806,150</u>	<u>577,051</u>	<u>97,831</u>	<u>288,236</u>	<u>5,769,268</u>
<b>Fund Balances (Note 11):</b>					
Nonspendable.....	75,153	89,484	—	120,823	285,460
Restricted.....	130,411	43,387	—	819,931	993,729
Committed.....	884,593	199,589	620,753	614,791	2,319,726
Assigned.....	30,957	—	—	778	31,735
Unassigned.....	158,821	—	—	—	158,821
Total Fund Balances.....	<u>1,279,935</u>	<u>332,460</u>	<u>620,753</u>	<u>1,556,323</u>	<u>3,789,471</u>
Total Liabilities and Fund Balances.....	<u>\$ 6,086,085</u>	<u>\$ 909,511</u>	<u>\$ 718,584</u>	<u>\$ 1,844,559</u>	<u>\$ 9,558,739</u>

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

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

June 30, 2013

Exhibit B-1a

(Dollars in Thousands)

<b>Total fund balances - governmental funds (see Exhibit B-1)</b>		<b>\$ 3,789,471</b>
Amounts reported for governmental activities in the Statement of Net Position are different because:		
- <b>Capital assets</b> 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).....	\$ 43,319,015	
Less: Accumulated depreciation (excluding internal service funds).....	(620,560)	
Net capital assets.....		42,698,455
- <b>Some assets</b> , such as receivables, are not available soon enough to pay for current period expenditures and thus, are offset by deferred revenue in the governmental funds.		
		234,792
<b>Equity interest in component unit</b> is not a financial resource and, therefore, is not reported in the funds.		
		163,748
- <b>Pension assets</b> , resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 12).		
		4,831
- <b>Long-term debt instruments</b> , 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 and losses on refundings are reported in the Statement of Net Position but are not reported in the funds. These balances consist of:		
General obligation bonds payable.....	(3,999,580)	
Lease-purchase revenue bonds payable.....	(20,915)	
Certificates of participation payable.....	(508,500)	
Limited obligation bonds payable.....	(1,993,740)	
GARVEE bonds payable.....	(454,820)	
Unamortized debt premiums (to be amortized as interest expense).....	(623,105)	
Less: Unamortized loss on refunding (to be amortized as interest expense).....	133,808	
Notes payable.....	(39,312)	
Capital leases payable (excluding internal service funds).....	(18,929)	
Net long-term debt.....		(7,525,093)
- <b>Other liabilities</b> 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.....	(70,902)	
Compensated absences (excluding internal service funds).....	(419,773)	
Obligations for workers' compensation.....	(150,251)	
Deferred death benefit payable.....	(400)	
Pollution remediation payable.....	(6,277)	
Claims and judgments payable.....	(741,703)	
Net pension obligation.....	(1,227)	
Total other liabilities.....		(1,390,533)
- <b>Internal service funds</b> 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).		
		217,818
<b>Total net position - governmental activities (see Exhibit A-1)</b>		<b>\$ 38,193,489</b>

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, 2013

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes:					
Individual income tax.....	\$ 11,111,462	\$ —	\$ —	\$ 2,135	\$ 11,113,597
Corporate income tax.....	1,224,702	—	—	—	1,224,702
Sales and use tax.....	5,554,065	—	—	8,109	5,562,174
Gasoline tax.....	—	1,397,312	465,938	25,154	1,888,404
Franchise tax.....	857,867	—	—	—	857,867
Highway use tax.....	—	—	555,581	—	555,581
Insurance tax.....	521,510	—	—	19,334	540,844
Beverage tax.....	330,711	—	—	—	330,711
Inheritance tax.....	111,510	—	—	—	111,510
Tobacco products tax.....	283,629	—	—	—	283,629
Other taxes.....	156,797	—	—	148,221	305,018
Federal funds.....	14,878,307	1,191,752	—	83,572	16,153,631
Local funds.....	158,413	21,947	446	5,521	186,327
Investment earnings.....	24,713	5,200	2,650	8,694	41,257
Interest earnings on loans.....	2,883	26	—	775	3,684
Sales and services.....	140,683	3,505	—	159,991	304,179
Rental and lease of property.....	10,304	11,157	2,536	3,562	27,559
Fees, licenses, and fines.....	724,026	570,932	95,060	184,709	1,574,727
Tobacco settlement.....	211,162	—	—	—	211,162
Contributions, gifts, and grants.....	21,487	6,194	546	46,630	74,857
Funds escheated.....	—	—	—	112,671	112,671
Federal recovery funds.....	182,756	64,102	—	26,334	273,192
Miscellaneous.....	126,065	20,293	5,124	33,281	184,763
Total revenues.....	36,633,052	3,292,420	1,127,881	868,693	41,922,046
<b>Expenditures:</b>					
Current:					
General government.....	905,962	—	—	39,740	945,702
Primary and secondary education.....	9,818,572	—	—	—	9,818,572
Higher education.....	3,843,736	—	—	184,034	4,027,770
Health and human services.....	18,336,915	—	—	79,314	18,416,229
Economic development.....	529,412	—	—	41,625	571,037
Environment and natural resources.....	282,073	—	—	173,821	455,894
Public safety, corrections, and regulation.....	2,658,145	—	—	241,142	2,899,287
Transportation.....	—	3,313,785	678,409	6	3,992,200
Agriculture.....	155,819	—	—	15,377	171,196
Capital outlay.....	—	—	—	182,107	182,107
Debt service:					
Principal retirement.....	1,138,281	57,265	62,253	3,886	1,261,685
Interest and fees.....	418,924	23,388	19,234	193	461,739
Debt issuance costs.....	5,724	—	43	838	6,605
Total expenditures.....	38,093,563	3,394,438	759,939	962,083	43,210,023
Excess revenues over (under) expenditures.....	(1,460,511)	(102,018)	367,942	(93,390)	(1,287,977)
<b>Other Financing Sources (Uses):</b>					
Special indebtedness issued.....	—	—	—	250,000	250,000
Refunding bonds issued.....	1,320,970	—	—	—	1,320,970
Other debt issued.....	9,380	—	—	—	9,380
Premium on debt issued.....	254,943	—	—	29,485	284,428
Payment to refunded bond escrow agent.....	(748,022)	—	—	—	(748,022)
Sale of capital assets.....	7,301	4,891	505	242	12,939
Insurance recoveries.....	3,198	6,656	—	71	9,925
Transfers in (Note 10).....	943,135	63,205	—	106,364	1,112,704
Transfers out (Note 10).....	(99,428)	(269,347)	(129,423)	(152,997)	(651,195)
Total other financing sources (uses).....	1,691,477	(194,595)	(128,918)	233,165	1,601,129
Net change in fund balances.....	230,966	(296,613)	239,024	139,775	313,152
Fund balances — July 1, as restated (Note 23).....	1,048,969	629,073	381,729	1,416,548	3,476,319
Fund balances — June 30.....	\$ 1,279,935	\$ 332,460	\$ 620,753	\$ 1,556,323	\$ 3,789,471

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

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

For the Fiscal Year Ended June 30, 2013

Exhibit B-2a

(Dollars in Thousands)

<b>Net change in fund balances - total governmental funds (see Exhibit B-2)</b>	\$	313,152
Amounts reported for governmental activities in the Statement of Activities are different because:		
- <b>Capital outlays</b> 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) .....	\$ 2,530,509	
Less: Depreciation expense (excluding internal service funds) .....	(747,037)	
Net capital outlay adjustment .....		1,783,472
- <b>Proceeds from the sale of capital assets</b> 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.		(37,171)
- <b>Donations of capital assets</b> do not appear in the governmental funds because they are not financial resources, but increase net position in the Statement of Activities.		311
- <b>Derivative termination payments</b> to counterparties consume financial resources of governmental funds but have no effect on net position.		124,910
- <b>Long-term debt</b> proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds and similar debt issued .....	(259,380)	
Refunding bonds issued .....	(1,320,970)	
Premiums on debt issued .....	(284,428)	
Principal repayments:		
Bonds, notes, and similar debt .....	1,260,188	
Capital leases (excluding internal service funds) .....	1,497	
Payments to escrow agent for refundings .....	748,022	
Net debt adjustments .....		144,929
- <b>Some revenues</b> in the Statement of Activities do not provide current financial resources and, therefore, are deferred 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.		(23,054)
- <b>Changes in fair value</b> of investment derivatives are not current financial resources in governmental funds but are recognized in the Statement of Activities		206
- <b>Change in equity interest</b> of component unit resulting from capital contributions and net income of component unit are not current financial resources, and therefore, are not recognized in the funds.		4,825
- <b>Some expenses</b> reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest .....	6,911	
Compensated absences (excluding internal service funds) .....	(16,341)	
Workers' compensation .....	(13,519)	
Deferred death benefit .....	110	
Claims and judgments .....	(10,000)	
Net pension obligation .....	2,638	
Pollution remediation .....	208	
Amortization of deferred amounts .....	96,686	
Net expense accruals .....		66,693
- <b>Internal service funds</b> 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).		(195)
<b>Change in net position - governmental activities (see Exhibit A-2)</b>	\$	<u>2,378,078</u>

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

## STATEMENT OF NET POSITION PROPRIETARY FUNDS

June 30, 2013

*(Dollars in Thousands)*

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 3).....	\$ 94,617	\$ 363,022	\$ 32,485	\$ 1,099
Investments (Note 3).....	—	—	4,154	—
Securities lending collateral (Note 3).....	7,889	32,136	4,830	40,723
Receivables: (Note 4)				
Accounts receivable, net.....	80,277	—	17,619	4,928
Intergovernmental receivable.....	12,779	33	155	1,154
Interest receivable.....	29	3,487	18	—
Premiums receivable.....	—	—	—	—
Contributions receivable, net.....	482,052	—	—	—
Notes receivable, net (Note 4).....	—	67,239	—	—
Due from other funds (Note 10).....	8,255	—	—	—
Due from component units (Note 18).....	—	—	—	—
Inventories.....	—	—	—	957
Prepaid items.....	—	—	381	—
Restricted/designated cash and cash equivalents (Note 3).....	—	—	—	1,712
Total current assets.....	<u>685,898</u>	<u>465,917</u>	<u>59,642</u>	<u>50,573</u>
<b>Noncurrent Assets:</b>				
Investments (Note 3).....	—	—	49,666	—
Receivables: (Note 4)				
Contributions receivable, net.....	43,383	—	—	—
Notes receivable, net (Note 4).....	—	872,355	—	—
Deferred charges.....	—	—	1,042	28,038
Restricted investments (Note 3).....	—	—	—	857,497
Capital assets-nondepreciable (Note 5).....	—	—	—	310,116
Capital assets-depreciable, net (Note 5).....	—	62	898	794,705
Total noncurrent assets.....	<u>43,383</u>	<u>872,417</u>	<u>51,606</u>	<u>1,990,356</u>
Total Assets.....	<u>729,281</u>	<u>1,338,334</u>	<u>111,248</u>	<u>2,040,929</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities:				
Accounts payable.....	12,220	119	23,572	2,952
Accrued payroll.....	—	—	431	—
Intergovernmental payable.....	32,869	—	—	52
Claims payable.....	—	—	—	—
Unemployment benefits payable.....	31,241	—	—	—
Obligations under securities lending.....	8,125	32,897	4,760	42,312
Interest payable.....	49,000	—	—	30,473
Due to fiduciary funds (Note 10).....	—	—	—	1,862
Due to other funds (Note 10).....	954	32	27,317	76
Unearned revenue.....	4,082	—	—	—
Deposits payable.....	—	—	—	1,091
Annuity and life income payable (Note 8).....	—	—	4,154	—
Notes payable (Note 8).....	—	—	—	—
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable (Note 8).....	—	—	—	19,150
Federal unemployment account advances (Note 8).....	1,300,000	—	—	—
Compensated absences (Note 8).....	—	21	291	4
Total current liabilities.....	<u>1,438,491</u>	<u>33,069</u>	<u>60,525</u>	<u>97,972</u>

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ 51,682	\$ 542,905	\$ 93,391
94,532	98,686	28,555
9,801	95,379	5,270
945	103,769	12,760
—	14,121	—
51	3,585	9
3,049	3,049	94
—	482,052	—
3	67,242	—
—	8,255	17,736
—	—	725
513	1,470	345
4,749	5,130	1,102
52	1,764	—
<u>165,377</u>	<u>1,427,407</u>	<u>159,987</u>
8,403	58,069	—
—	43,383	—
114	872,469	—
3	29,083	—
—	857,497	—
12,439	322,555	3,396
<u>42,545</u>	<u>838,210</u>	<u>85,149</u>
<u>63,504</u>	<u>3,021,266</u>	<u>88,545</u>
<u>228,881</u>	<u>4,448,673</u>	<u>248,532</u>
2,710	41,573	7,757
269	700	1,939
3	32,924	2
26,541	26,541	1,119
—	31,241	—
9,994	98,088	5,350
—	79,473	—
—	1,862	—
73	28,452	1,083
27,677	31,759	7,077
12	1,103	—
—	4,154	—
197	197	—
—	—	123
—	19,150	—
—	1,300,000	—
270	586	315
<u>67,746</u>	<u>1,697,803</u>	<u>24,765</u>

Continued

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

June 30, 2013

*(Dollars in Thousands)*

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
<b>Noncurrent Liabilities:</b>				
Accounts payable.....	—	—	—	48,384
Advances from other funds (Note 10).....	—	—	—	23,606
Annuity and life income payable (Note 8).....	—	—	49,666	—
Notes payable (Note 8).....	—	—	—	372,877
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable, net (Note 8).....	—	—	—	1,211,608
Federal unemployment account advances (Note 8).....	854,771	—	—	—
Compensated absences (Note 8).....	—	539	1,057	59
Total noncurrent liabilities.....	<u>854,771</u>	<u>539</u>	<u>50,723</u>	<u>1,656,534</u>
Total Liabilities.....	<u>2,293,262</u>	<u>33,608</u>	<u>111,248</u>	<u>1,754,506</u>
<b>Net Position</b>				
Net investment in capital assets.....	—	62	898	358,684
Restricted for:				
Capital outlay.....	—	—	—	—
Other purposes.....	—	—	—	—
Unrestricted.....	(1,563,981)	1,304,664	(898)	(72,261)
Total Net Position.....	<u>\$ (1,563,981)</u>	<u>\$ 1,304,726</u>	<u>\$ —</u>	<u>\$ 286,423</u>

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

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
17	48,401	—
—	23,606	—
—	49,666	—
4,392	377,269	—
—	—	323
—	1,211,608	—
—	854,771	—
5,176	6,831	5,626
<u>9,585</u>	<u>2,572,152</u>	<u>5,949</u>
<u>77,331</u>	<u>4,269,955</u>	<u>30,714</u>
50,406	410,050	88,099
52	52	—
943	943	—
100,149	(232,327)	129,719
<u>\$ 151,550</u>	<u>\$ 178,718</u>	<u>\$ 217,818</u>

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

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
<b>Operating Revenues:</b>				
Employer unemployment contributions.....	\$ 1,476,933	\$ —	\$ —	\$ —
Federal funds.....	58,135	—	—	—
Sales and services.....	—	2,404	1,689,712	461
Student tuition and fees, net.....	—	—	—	—
Interest earnings on loans.....	—	17,086	—	—
Rental and lease earnings.....	—	—	—	62
Fees, licenses, and fines.....	—	—	5,233	2,560
Toll revenues.....	—	—	—	10,416
Insurance premiums.....	—	—	—	—
Miscellaneous.....	—	—	64	—
Total operating revenues.....	<u>1,535,068</u>	<u>19,490</u>	<u>1,695,009</u>	<u>13,499</u>
<b>Operating Expenses:</b>				
Personal services.....	—	5,684	17,540	1,285
Supplies and materials.....	—	133	1,457	1,086
Services.....	—	1,484	169,143	11,163
Cost of goods sold.....	—	—	—	461
Depreciation.....	—	23	346	9,931
Lottery prizes.....	—	—	1,024,437	—
Claims.....	—	—	—	—
Unemployment benefits.....	2,426,388	—	—	—
Insurance and bonding.....	—	13	9	—
Other.....	—	239	2,993	973
Total operating expenses.....	<u>2,426,388</u>	<u>7,576</u>	<u>1,215,925</u>	<u>24,899</u>
Operating income (loss).....	<u>(891,320)</u>	<u>11,914</u>	<u>479,084</u>	<u>(11,400)</u>
<b>Nonoperating Revenues (Expenses):</b>				
Noncapital grants.....	1,186,076	69,345	—	—
Noncapital gifts, net.....	—	—	—	—
Investment earnings.....	1,165	2,477	417	2,568
Interest and fees.....	(67,383)	—	—	(52,755)
Insurance recoveries.....	—	—	—	8
Grants, aid and subsidies.....	—	(16,070)	—	—
Gain (loss) on sale of equipment.....	—	(3)	—	—
Gain on extinguishment of debt.....	142,036	—	—	—
Federal interest subsidy on debt.....	—	—	—	11,686
Miscellaneous.....	(2,674)	(62)	8	(245)
Total nonoperating revenues (expenses).....	<u>1,259,220</u>	<u>55,687</u>	<u>425</u>	<u>(38,738)</u>
Income (loss) before contributions and transfers.....	367,900	67,601	479,509	(50,138)
Capital contributions.....	—	—	—	13,529
Transfers in (Note 10).....	—	—	—	56,246
Transfers out (Note 10).....	(22,598)	(1,582)	(479,509)	(3,571)
Change in net position.....	<u>345,302</u>	<u>66,019</u>	<u>—</u>	<u>16,066</u>
Net position — July 1, as restated (Note 23).....	(1,909,283)	1,238,707	—	270,357
Net position — June 30.....	<u>\$ (1,563,981)</u>	<u>\$ 1,304,726</u>	<u>\$ —</u>	<u>\$ 286,423</u>

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

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
\$ —	\$ 1,476,933	\$ —
—	58,135	1
1,580	1,694,157	338,468
11	11	—
—	17,086	—
7,481	7,543	26
94,102	101,895	218
—	10,416	—
19,275	19,275	20,986
574	638	312
<u>123,023</u>	<u>3,386,089</u>	<u>360,011</u>
63,283	87,792	79,218
3,123	5,799	33,916
27,217	209,007	160,679
389	850	695
2,899	13,199	20,597
—	1,024,437	—
11,796	11,796	372
—	2,426,388	—
4,888	4,910	16,584
4,635	8,840	37,052
<u>118,230</u>	<u>3,793,018</u>	<u>349,113</u>
<u>4,793</u>	<u>(406,929)</u>	<u>10,898</u>
654	1,256,075	59
937	937	—
154	6,781	433
(112)	(120,250)	(93)
5,943	5,951	110
(2,547)	(18,617)	—
(2)	(5)	515
—	142,036	—
—	11,686	—
20	(2,953)	263
<u>5,047</u>	<u>1,281,641</u>	<u>1,287</u>
9,840	874,712	12,185
7,580	21,109	396
8,031	64,277	6,020
(5,750)	(513,010)	(18,796)
19,701	447,088	(195)
131,849	(268,370)	218,013
<u>\$ 151,550</u>	<u>\$ 178,718</u>	<u>\$ 217,818</u>

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers.....	\$ 1,475,619	\$ 2,404	\$ 1,573,884	\$ 8,655
Receipts from federal agencies.....	58,403	—	—	—
Receipts from other funds.....	—	—	—	—
Payments to suppliers.....	—	(1,640)	(55,481)	(9,599)
Payments to employees.....	—	(5,641)	(17,402)	(1,401)
Payments for prizes, benefits, and claims.....	(2,452,203)	—	(1,032,548)	—
Payments to other funds.....	—	—	—	—
Other receipts.....	—	—	27	—
Other payments.....	(2,674)	(177)	(2)	(1,020)
Net cash flows provided (used) by operating activities.....	<u>(920,855)</u>	<u>(5,054)</u>	<u>468,478</u>	<u>(3,365)</u>
<b>Cash Provided From (Used For)</b>				
<b>Noncapital Financing Activities:</b>				
Grant receipts.....	1,202,373	54,624	—	—
Federal recovery funds.....	—	14,772	—	—
Subsidy to other governments.....	—	(16,070)	—	—
Grants, aid, and subsidies.....	—	—	—	—
Advances from federal unemployment account.....	1,058,793	—	—	—
Payments to federal unemployment account.....	(1,327,508)	—	—	—
Interest expense and issuance cost.....	(83,929)	—	—	—
Advances from other funds.....	—	—	—	860
Transfers from other funds.....	—	—	—	—
Transfers to other funds.....	(22,598)	(1,582)	(462,367)	(3,571)
Gifts.....	—	—	—	—
Insurance recoveries.....	—	—	—	8
Total cash provided from (used for) noncapital financing activities.....	<u>827,131</u>	<u>51,744</u>	<u>(462,367)</u>	<u>(2,703)</u>
<b>Cash Provided From (Used For)</b>				
<b>Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets.....	—	(13)	(572)	(96,075)
Proceeds from the sale of capital assets.....	—	—	—	—
Proceeds from capital debt.....	—	—	—	89,368
Transfers from other funds.....	—	—	—	56,246
Capital grants.....	—	—	—	12,441
Capital contributions.....	—	—	—	—
Principal paid on capital debt.....	—	—	—	(22,725)
Interest paid on capital debt.....	—	—	—	(63,076)
Federal subsidy for interest on debt.....	—	—	—	11,686
Insurance recoveries.....	—	—	—	—
Total cash provided from (used for) capital and related financing activities.....	<u>—</u>	<u>(13)</u>	<u>(572)</u>	<u>(12,135)</u>
<b>Cash Provided From (Used For)</b>				
<b>Investment Activities:</b>				
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	7,438,817
Purchase of non-State Treasurer investments.....	—	—	—	(7,424,506)
Redemptions from State Treasurer investment pool.....	—	—	—	—
Loan issuances.....	—	(140,567)	—	—
Loan repayments — interest.....	—	17,972	—	—
Loan repayments — principal.....	—	75,875	—	—
Investment earnings.....	468	1,493	446	3,801
Total cash provided from (used for) investment activities.....	<u>468</u>	<u>(45,227)</u>	<u>446</u>	<u>18,112</u>
Net increase (decrease) in cash and cash equivalents.....	(93,256)	1,450	5,985	(91)
Cash and cash equivalents at July 1.....	187,873	361,572	26,500	2,902
Cash and cash equivalents at June 30.....	<u>\$ 94,617</u>	<u>\$ 363,022</u>	<u>\$ 32,485</u>	<u>\$ 2,811</u>

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

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<b>Governmental Activities — Internal Service Funds</b>
\$ 123,884	\$ 3,184,446	\$ 47,571
—	58,403	1
—	—	309,894
(36,883)	(103,603)	(237,813)
(62,980)	(87,424)	(78,687)
(27,979)	(3,512,730)	(573)
—	—	(13,385)
549	576	585
<u>(3,897)</u>	<u>(7,770)</u>	<u>(66)</u>
<u>(7,306)</u>	<u>(468,102)</u>	<u>27,527</u>
654	1,257,651	59
—	14,772	—
—	(16,070)	—
(3,033)	(3,033)	—
—	1,058,793	—
—	(1,327,508)	—
—	(83,929)	(14)
—	860	—
8,031	8,031	6,020
(5,750)	(495,868)	(18,796)
937	937	—
—	8	—
<u>839</u>	<u>414,644</u>	<u>(12,731)</u>
(2,821)	(99,481)	(24,697)
22	22	1,686
1,716	91,084	—
—	56,246	—
—	12,441	—
63	63	—
(437)	(23,162)	(811)
(112)	(63,188)	(79)
—	11,686	—
<u>5,943</u>	<u>5,943</u>	<u>110</u>
<u>4,374</u>	<u>(8,346)</u>	<u>(23,791)</u>
22,342	7,461,159	—
(20,633)	(7,445,139)	—
6,006	6,006	—
—	(140,567)	—
—	17,972	—
—	75,875	—
<u>532</u>	<u>6,740</u>	<u>157</u>
<u>8,247</u>	<u>(17,954)</u>	<u>157</u>
6,154	(79,758)	(8,838)
<u>45,580</u>	<u>624,427</u>	<u>102,229</u>
<u>\$ 51,734</u>	<u>\$ 544,669</u>	<u>\$ 93,391</u>

Continued

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

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
<b>Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:</b>				
Operating income (loss).....	\$ (891,320)	\$ 11,914	\$ 479,084	\$ (11,400)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation.....	—	23	346	9,931
Interest earnings on loans classified as investing activity.....	—	(17,086)	—	—
Nonoperating miscellaneous income (expense).....	(2,674)	—	25	(245)
(Increases) decreases in assets:				
Receivables.....	(11,543)	—	(2,977)	(4,844)
Due from other funds.....	(3,009)	—	—	—
Due from component units.....	—	—	—	—
Inventories.....	—	—	4	463
Prepaid items.....	—	—	160	1,108
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities.....	10,939	47	(8,021)	(1,023)
Due to other funds.....	694	5	—	75
Due to fiduciary funds.....	—	—	—	1,862
Unemployment benefits payable.....	(23,825)	—	—	—
Compensated absences.....	—	43	120	(116)
Unearned revenue.....	(117)	—	—	—
Deposits payable.....	—	—	(263)	824
Total cash provided from (used for) operations.....	<u>\$ (920,855)</u>	<u>\$ (5,054)</u>	<u>\$ 468,478</u>	<u>\$ (3,365)</u>
<b>Noncash Investing, Capital, and Financing Activities:</b>				
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.....	—	—	—	2,496
Gain on extinguishment of debt.....	142,036	—	—	—
Assets acquired through the assumption of a liability.....	—	—	4,653	—
Change in fair value of investments.....	746	969	25	948
Increase in receivables related to nonoperating income.....	—	—	—	—
Change in securities lending collateral.....	(8,413)	(4,929)	1,771	(10,987)

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ 4,793	\$ (406,929)	\$ 10,898
2,899	13,199	20,597
—	(17,086)	—
33	(2,861)	272
(1,358)	(20,722)	1,739
—	(3,009)	(1,629)
—	—	(57)
36	503	88
(986)	282	(293)
(15,769)	(13,827)	(1,948)
(11)	763	155
—	1,862	—
—	(23,825)	—
326	373	(8)
2,736	2,619	(2,287)
<u>(5)</u>	<u>556</u>	<u>—</u>
<u>\$ (7,306)</u>	<u>\$ (468,102)</u>	<u>\$ 27,527</u>
\$ 744	\$ 744	\$ 1,433
7,344	7,344	396
—	2,496	—
—	142,036	—
—	4,653	—
(482)	2,206	(1,172)
174	174	—
2,614	(19,944)	421

**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**

June 30, 2013

Exhibit B-6

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private- Purpose Trust Funds	Agency Funds
<b>Assets</b>				
Cash and cash equivalents (Note 3).....	\$ 309,575	\$ 12,390	\$ 108,943	\$ 5,107,444
Investments (Note 3):				
U.S. government and agency securities.....	—	—	528	—
Corporate bonds.....	—	—	—	4,331
Certificates of deposit.....	—	—	52,975	325
Collective investment funds.....	280,991	—	—	—
State Treasurer investment pool.....	80,818,148	995,968	6,785	40,775
Unallocated insurance contracts.....	818,609	—	—	—
Synthetic guaranteed investment contracts.....	1,114,905	—	—	—
Non-State Treasurer pooled investments.....	4,788,468	—	—	—
Securities lending collateral (Note 3).....	2,744,149	72,157	676	402,062
Receivables:				
Taxes receivable.....	—	—	—	135,700
Accounts receivable.....	29,059	—	—	4,399
Interest receivable.....	173	1,763	2	—
Contributions receivable.....	127,167	—	—	—
Due from other funds (Note 10).....	56,873	—	—	43,582
Due from component units.....	6,728	—	—	—
Notes receivable.....	276,516	—	—	—
Sureties.....	—	—	870,871	97,774
Total Assets.....	<u>91,371,361</u>	<u>1,082,278</u>	<u>1,040,780</u>	<u>5,836,392</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities:				
Accounts payable.....	1,376	—	—	370
Intergovernmental payable.....	—	—	—	638,849
Benefits payable.....	76,306	—	—	—
Obligations under securities lending.....	2,780,082	73,827	705	411,996
Deposits payable.....	—	—	—	1,925
Funds held for others.....	—	—	—	4,783,252
Total Liabilities.....	<u>2,857,764</u>	<u>73,827</u>	<u>705</u>	<u>5,836,392</u>
<b>Net Position</b>				
Held in trust for:				
Employees' pension and other benefits.....	88,513,597	—	—	—
Pool participants.....	—	1,008,451	—	—
Individuals, organizations, and other governments.....	—	—	1,040,075	—
Total Net Position.....	<u>\$ 88,513,597</u>	<u>\$ 1,008,451</u>	<u>\$ 1,040,075</u>	<u>\$ —</u>

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

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

For the Fiscal Year Ended June 30, 2013

Exhibit B-7

*(Dollars in Thousands)*

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Investment Trust Funds</b>	<b>Private- Purpose Trust Funds</b>
<b>Additions:</b>			
Contributions:			
Employer.....	\$ 2,587,846	\$ —	\$ —
Members.....	1,519,910	—	—
Trustee deposits.....	—	—	125,884
Other contributions.....	44,421	—	—
Total contributions.....	<u>4,152,177</u>	<u>—</u>	<u>125,884</u>
Investment income:			
Investment earnings.....	8,174,764	33,659	2,945
Less investment expenses.....	(374,009)	(646)	(9)
Net investment income.....	<u>7,800,755</u>	<u>33,013</u>	<u>2,936</u>
Pool share transactions:			
Reinvestment of dividends.....	—	33,013	—
Net share purchases/(redemptions).....	—	(30,780)	—
Net pool share transactions.....	<u>—</u>	<u>2,233</u>	<u>—</u>
Other additions:			
Fees, licenses, and fines.....	3,314	—	—
Interest earnings on loans.....	11,475	—	—
Miscellaneous.....	1,919	—	—
Total other additions.....	<u>16,708</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>11,969,640</u>	<u>35,246</u>	<u>128,820</u>
<b>Deductions:</b>			
Claims and benefits.....	5,260,220	—	—
Medical insurance premiums.....	752,309	—	—
Refund of contributions.....	142,567	—	—
Distributions paid and payable.....	—	33,013	—
Payments in accordance with trust arrangements.....	—	—	138,796
Administrative expenses.....	19,405	—	—
Other deductions.....	28	—	—
Total deductions.....	<u>6,174,529</u>	<u>33,013</u>	<u>138,796</u>
Change in net position.....	5,795,111	2,233	(9,976)
Net position — July 1, as restated (Note 23).....	<u>82,718,486</u>	<u>1,006,218</u>	<u>1,050,051</u>
Net position — June 30.....	<u>\$ 88,513,597</u>	<u>\$ 1,008,451</u>	<u>\$ 1,040,075</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**A. Financial Reporting Entity**

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

The State's component units are either blended or discretely presented. The blended component unit is so intertwined with the State that it is, in substance, the same as the State and, therefore, is reported as if it was part of the State primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the State's discretely presented component units. They are combined and reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the State.

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

**Community Colleges**

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

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

The following are the State's 58 community colleges:

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

**State Health Plan**

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

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**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 percent 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. 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 State assigned 50 percent of its share of the settlement to the Foundation, 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 beyond the high school level by attending public or private educational institutions. The Authority is governed by a nine-member board of directors, seven of whom are appointed by the Governor and two of whom serve ex-officio by virtue of their positions with the N.C. Community College System and the University of North Carolina System. The State provides program subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

**North Carolina Global TransPark Authority**

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

**North Carolina State Ports Authority**

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

**North Carolina Railroad Company**

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

**The North Carolina Partnership for Children, Inc.**

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

**North Carolina Health Insurance Risk Pool, Inc.**

The North Carolina Health Insurance Risk Pool (Pool), doing business as Inclusive Health, is a legally separate non-profit organization created to provide affordable health insurance coverage for North Carolinians who do not have access to an employer health plan and face higher insurance premiums because of a pre-existing medical condition. The Pool is governed by a 12-member board. The Commissioner of Insurance serves as an ex-officio, nonvoting member, one member is appointed by the Governor, two by the General

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**NOTES TO THE FINANCIAL STATEMENTS**

Assembly, and eight by the Commissioner of Insurance. The State has obligated itself to provide significant funding to the Pool, creating a financial benefit/burden relationship. The Pool was notified by The Centers for Medicare and Medicaid Services (CMS), the federal agency which administers Medicare and Medicaid, in May 2013 that funding by CMS ceased on June 30, 2013. With the implementation of the Affordable Care Act, the State has decided the Pool's operations will sunset during the next year (see Note 24).

**Rural Economic Development Center, Inc.**

The Rural Economic Development Center, Inc. (Center) is a legally separate organization established to build economic strength in the State's 85 rural counties, with a special focus on creating economic opportunities for individuals with low to moderate incomes and communities with limited resources. The Center is governed by a 50-member board of directors. Three members are appointed by the Governor, three by the Speaker of the House, and three by the President Pro Tempore of the Senate. The other members are elected by the board of directors. The State has obligated itself to provide significant funding to the Center, creating a financial benefit/burden relationship (see Note 24).

**North Carolina Biotechnology Center**

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

**Centennial Authority**

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

**Availability of Financial Statements**

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

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

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

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

North Carolina Railroad Company  
 2809 Highwoods Boulevard, Suite 100  
 Raleigh, N.C. 27604-1000

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

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

Rural Economic Development Center, Inc.  
 4021 Carya Drive  
 Raleigh, N.C. 27610

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

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

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

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 "Colleges then "Find Colleges"). The North Carolina Infrastructure Finance Corporation and the State Health Plan do not issue separate financial statements.

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

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

The financial statements are presented as of and for the fiscal year ended June 30, 2013, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2012, 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, 2012. Occupational licensing boards have financial statements with various fiscal year ending dates.

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

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

The State reports the following major governmental funds:

**General Fund**

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

**Highway Fund**

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

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

This fund was established by legislation (Chapter 692 of the 1989 Session Laws) to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. Additionally, this fund provides supplemental allocations for secondary road construction and supplemental assistance to municipalities for local street projects. The fund also makes transfers to the General Fund, the Highway Fund, and the North Carolina Turnpike Authority. 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. The unemployment benefits are financed primarily by State unemployment insurance taxes, distributions of federal unemployment insurance taxes, and federal funding for the unemployment benefits of civilian and military employees. During fiscal year 2013, the unemployment benefits were also financed by repayable advances from the Federal Unemployment Account. The unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund.

**N.C. State Lottery Fund**

This fund accounts for the activities of the N.C. Education Lottery Commission. The N.C. Education Lottery Commission was created as an independent, self-supporting and revenue raising entity. The purpose of the lottery is to generate funds to provide enhanced educational opportunities, support school construction, and fund college and university scholarships. The net profits of the fund are transferred periodically to the General Fund as required by general statutes.

**EPA Revolving Loan Fund**

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

**North Carolina Turnpike Authority**

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

Additionally, the State reports the following fund types:

**Internal Service Funds**

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

**Pension and Other Employee Benefits Trust Funds**

These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, Internal Revenue Code (IRC) Section 401(k) plan, IRC Section 457 plan, other defined contribution plans, 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.

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**NOTES TO THE FINANCIAL STATEMENTS****Agency Funds**

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

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

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

Lottery games are sold to the public by contracted retailers. For the N.C. Education Lottery Commission's on-line games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, and raffles offered, revenue is recognized at the time of sale on a daily basis. For instant games, revenue is recognized at the time a pack of tickets is settled. For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, and for raffles, prize expense is recorded at fifty percent of sales on a daily basis. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded daily on value of packs settled. Certain games include free tickets (prize tickets) which entitle the holder to exchange one instant ticket for another of equal value. 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, entitlements, and similar items; 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, entitlements, and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection. Amounts received before all eligibility requirements have been met are reported as unearned revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

**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.

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

This classification includes undeposited receipts; petty cash; deposits held by the State Treasurer in the Short-term Investment portfolio (see Note 3); and demand and time deposits with private financial institutions, excluding certificates of deposit. The Short-term Investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

**E. Investments**

This classification includes deposits held by the State Treasurer in certain investment portfolios (see Note 3A) as well as investments held separately by the State and its component units. Investments are generally reported at fair value (generally based on quoted market prices, except as discussed in Note 3) with significant exceptions noted below and in Note 1F.

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

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

**F. Securities Lending**

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

**G. Receivables and Payables**

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

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

**H. Inventories and Prepaid Items**

The inventories of the State and component units are valued at cost using either the first-in, first-out (FIFO); last invoice cost; or average cost method. These inventories consist of general supplies and materials. Institutions of the UNC System and community colleges also use these valuations along with the retail inventory method for some bookstore operations. The State Highway Fund accounts for its maintenance and construction inventories using the average cost method.

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Prepaid items of governmental funds are recorded as expenditures when purchased, and balances of prepaid items are not reported as assets.

**NOTES TO THE FINANCIAL STATEMENTS****I. 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.

**J. Capital Assets**

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

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

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

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

<u>Asset Class</u>	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings.....	Straight-line	10-100 years
Machinery and Equipment.....	Straight-line	2-30 years
	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, 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.).

**K. 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."

**L. 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

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**NOTES TO THE FINANCIAL STATEMENTS**

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

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

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

**M. 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. Losses on the State's refundings are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method. If material, debt premiums, discounts, and losses on refundings 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, discount, and/or deferred loss on refunding. Debt issuance costs of the State's governmental activities and the University of North Carolina System (component unit) are generally expensed. Debt issuance costs of the State's business-type activities are deferred and amortized over the life of the debt using the straight-line method.

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.

**N. 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.

**O. 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.

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**NOTES TO THE FINANCIAL STATEMENTS****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, 2013, the balance of the Savings Reserve Account was \$651.35 million, which represents 3.31% of the prior year's General Fund appropriation budget.

**P. 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.

**Q. 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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**A. Fund Equity Deficit****Primary Government**

At June 30, 2013, the following enterprise funds reported a net position deficit: Workers' Compensation, \$5.838 million and Utilities Commission, \$196 thousand.

At June 30, 2013, the following internal service funds reported a net position deficit: Mail Service Center, \$248 thousand and Surplus Property, \$15 thousand.

**B. Material Violations of Legal or Contractual Provisions****Component Units**

Chatham Hospital, Inc (the Hospital) which is a part of the University of North Carolina System (a component unit of the State), issued \$30.54 million of FHA Insured North Carolina Medical Care Commission Mortgage Revenue Bonds, Series 2007 on February 8, 2007. The issued bonds are subject to mandatory sinking fund requirements prior to their due dates. There are certain covenants associated with the Series 2007 bonds that are outlined in the master trust indenture, loan agreement, and regulatory agreement. The most restrictive of these covenants requires maintenance of a long term debt service coverage ratio, as defined, of greater than 1.5. The Hospital also had a loss from operations that was equal or greater than 1% of total operating revenues. Management acknowledges that the Hospital was in violation of certain covenants and requirements of those agreements at June 30, 2013.

In accordance with the agreements, the Hospital is in the process of complying with such covenants and requirements by taking corrective action. In 2012, the Hospital engaged consultants with Critical Access Hospital expertise to (1) review the services offered at the Hospital to determine if opportunities exist for expansion or contraction of services lines with the goal of improving profitability; (2) benchmark the operations with high performing Critical Access Hospitals and recommend changes; and (3) review the Medicare/Medicaid cost report and recommend strategies to enhance cost recovery. In 2013, the Hospital developed a comprehensive business plan to turn the finance performance around. The plan was based on the above mentioned consultant report along with strategies developed by management of the Hospital and UNC Health Care System (UNCHCS). In addition in November 2012, the Hospital opened UNC Surgical Care at Chatham Hospital, a multispecialty clinic located in the Medical Office Building. The addition of this surgery clinic has brought additional business to the Hospital through clinic visits and through an increase in surgeries performed at the Hospital.

The Hospital also addressed its charge master based on comments from a report done by an outside consultant. The Hospital is continuing with functional integration with UNCHCS to capitalize on expertise and processes. Integrated areas include admissions, medical information management and the business office.

UNC Management believes these actions will produce results to bring the Hospital in compliance with the covenants.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 3: DEPOSITS AND INVESTMENTS**

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**A. Deposits and Investments with State Treasurer**

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

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

**External Investment Pool**

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for the Public Hospitals, Escheat Fund, and bond proceeds investment accounts, is maintained in the Investment Pool. This pool, a governmental external investment pool, consists of the following individual investment portfolios:

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

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

*External Fixed Income Investment* – This portfolio holds collateralized mortgage obligations, asset-backed and commercial mortgage-backed securities pursuant to General Statute 147-69.2. The State's pension trust funds are the sole participants in the portfolio.

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

*OPEB Equity Investment* – This portfolio holds equity-based trusts. Pursuant to General Statute 159-30.1, the State Treasurer manages the trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other post-employment benefit plans. As of June 30, 2013, there were fifteen participants. Each participant is responsible for making its own investment decision. However, through signed agreements with the State Treasurer, each participant has delegated its 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, 2013**

<b>Assets:</b>	
Cash and cash equivalents.....	\$ 205,022
Other assets.....	303,802
Investments.....	<u>96,937,269</u>
Total assets.....	<u>97,446,093</u>
<b>Liabilities:</b>	
Other payables.....	19,460
Obligations under securities lending.....	<u>3,894,303</u>
Total liabilities.....	<u>3,913,763</u>
<b>Net Position:</b>	
Internal:	
Primary government.....	88,103,159
Component units.....	4,520,178
External.....	<u>908,993</u>
Total net position.....	<u>\$ 93,532,330</u>

**Statement of Operations and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2013**

<b>Revenues:</b>	
Investment income.....	<u>\$ 7,579,303</u>
<b>Expenses:</b>	
Securities lending.....	4,244
Investment management.....	<u>405,007</u>
Total expenses.....	<u>409,251</u>
Net increase in net position resulting from operations.....	7,170,052
<b>Distributions to participants:</b>	
Distributions paid and payable.....	(7,170,052)
<b>Share transactions:</b>	
Reinvestment of distributions.....	7,169,823
Net share redemptions.....	<u>(1,500,368)</u>
Total increase in net position.....	5,669,455
<b>Net position:</b>	
Beginning of year.....	<u>87,862,875</u>
End of year.....	<u>\$ 93,532,330</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

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

The fair value of fixed income securities are calculated by a third party pricing vendor based on future principal and interest payments discounted using market yields. For the Alternative Investment portfolio (private equity investment partnerships and hedge funds), the Real Estate Investment portfolio (limited partnerships and other investments), the Credit Investment and Inflation Protection Investment portfolios (limited partnerships, hedge funds, and other non-publicly traded investments) the methodology for determining an estimated fair value is established by the general partner, which may utilize a third party pricing source or an independent real estate appraiser. These partnerships and funds are valued using their respective net asset value (NAV), and are audited annually. 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, 2013, \$970 thousand 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 \$14.7 million. The nonnegotiable certificates of deposit were uninsured and were collateralized with securities not in the name of the State and held by an agent.

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

**NOTES TO THE FINANCIAL STATEMENTS****Investments**

At year-end, the Investment Pool maintained by the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
<b>Debt investments:</b>					
U.S. Treasuries .....	\$ 14,727,427	\$ 6,593,291	\$ 920,572	\$ 4,693,857	\$ 2,519,707
U.S. agencies .....	7,464,240	515,818	5,906,176	298,187	744,059
Mortgage pass-throughs .....	7,049,945	—	1,053	11,765	7,037,127
Collateralized mortgage obligations .....	102,249	49,249	—	—	53,000
Asset-backed securities .....	236,066	146,743	4,586	7,896	76,841
Repurchase agreements .....	1,426,000	1,426,000	—	—	—
Commercial mortgage-backed securities ..	24,096	24,096	—	—	—
Collective investment funds .....	186,553	186,553	—	—	—
Domestic corporate bonds .....	10,041,986	15,394	1,406,532	4,505,623	4,114,437
Foreign government bonds .....	34,789	—	—	34,789	—
Securities purchased with cash collateral under securities lending program:					
U.S. agencies .....	94,793	94,793	—	—	—
Asset-backed securities .....	245,364	245,364	—	—	—
Negotiable certificates of deposit .....	684,926	684,926	—	—	—
Repurchase agreements .....	1,217,215	1,217,215	—	—	—
Commercial paper .....	444,061	444,061	—	—	—
Domestic corporate bonds .....	975,629	975,629	—	—	—
	<u>44,955,339</u>	<u>\$ 12,619,132</u>	<u>\$ 8,238,919</u>	<u>\$ 9,552,117</u>	<u>\$ 14,545,171</u>
<b>Other investments:</b>					
Equity based trust - domestic .....	22,717,657				
Equity based trust - international .....	14,379,242				
OPEB equity based trust- domestic .....	57,395				
OPEB equity based trust- international .....	18,167				
<b>Alternative investments:</b>					
Hedge funds .....	260,585				
Private equity investment partnerships ..	3,353,089				
Stock distributions .....	3,591				
Real estate trust funds .....	6,481,005				
Credit investments .....	3,273,421				
Inflation protection investments .....	1,423,078				
<b>Total investments .....</b>	<u><b>\$ 96,922,569</b></u>				

In addition to the above amount, nonnegotiable certificates of deposit in the amount of \$14.7 million, are reported as investments in the Condensed Statement of Net Position presented previously.

**NOTES TO THE FINANCIAL STATEMENTS**

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

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries .....	\$ 13,265,869	0.00%-8.875%
U.S. agencies .....	7,293,891	0.00%-7.125%
Mortgage pass-throughs .....	6,718,566	3.00%-9.00%
Collateralized mortgage obligations .....	129,396	0.31%-6.50%
Commercial mortgage-backed securities .....	31,737	0.413%-1.243%
Asset-backed securities .....	257,070	0.341%-6.25%
Domestic corporate bonds .....	9,107,054	0.50%-10.50%
Foreign government bonds .....	35,000	2.45%-5.125%
Repurchase agreements .....	1,426,000	0.01%-0.20%
Collective investment funds .....	186,553	0.195%
Securities purchased with cash collateral under securities lending program:		
U.S. agencies .....	94,790	0.135%-0.162%
Asset-backed securities .....	411,141	0.20%-0.283%
Negotiable certificates of deposit .....	684,932	0.09%-0.25%
Repurchase agreements .....	1,217,215	0.02%-0.13%
Commercial paper .....	444,196	0.12%-0.35%
Domestic corporate bonds .....	974,492	0.181%-0.413%
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 of U.S. dollar equity futures and foreign currency 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. The investments are valued at fair market value using market prices provided by third party professionals.

*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 1.6 years as of June 30, 2013. 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 96% 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 as similar securities without call options.

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

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

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

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

At year-end, the Investment Pool had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies .....	—	\$ 7,441,538	\$ 22,702	\$ —	\$ —	\$ —
Collateralized mortgage obligations .....	—	1,327	10,414	35,587	36,991	17,930
Commercial mortgage-backed securities ..	—	—	354	—	23,742	—
Asset-backed securities .....	—	4,586	164,558	40,615	26,307	—
Repurchase agreements .....	—	1,426,000	—	—	—	—
Collective investment funds .....	—	—	—	—	—	186,553
Domestic corporate bonds .....	59,860	490,198	4,913,934	4,137,089	440,905	—
Foreign government bonds .....	—	23,549	11,240	—	—	—
Securities purchased with cash collateral under securities lending program:						
U.S. agencies .....	—	94,793	—	—	—	—
Asset-backed securities .....	—	24,987	—	—	220,377	—
Negotiable certificates of deposit .....	—	684,926	—	—	—	—
Repurchase agreements .....	—	1,142,993	—	—	—	74,222
Commercial paper .....	—	444,061	—	—	—	—
Domestic corporate bonds .....	33,088	388,490	554,051	—	—	—
<b>Total .....</b>	<b>\$ 92,948</b>	<b>\$ 12,167,448</b>	<b>\$ 5,677,253</b>	<b>\$ 4,213,291</b>	<b>\$ 748,322</b>	<b>\$ 278,705</b>

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year-end, the investments purchased with cash collateral under the securities lending program of \$3.7 billion were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

**NOTES TO THE FINANCIAL STATEMENTS**

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The State Treasurer's investment risk 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. However, more than 5% of the total Investment Pool's securities are invested in the Federal National Mortgage Association. These investments totaled \$4.865 billion and comprise 5.02% of the Investment Pool's total investments. These investments are held by the Short-term, Long-term, Inflation Protection, and External Fixed Income portfolios and in the securities lending cash collateral pool and are classified as repurchase agreements and U.S. agencies.

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

Currency	Carrying Value by Investment Type				
	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Funds	OPEB Equity Based Trust-International	Total
Euro .....	\$ 4,047,400	\$ 502,714	\$ 150,597	\$ 3,742	\$ 4,704,453
British Pound Sterling ...	2,569,411	—	63,012	2,842	2,635,265
Japanese Yen .....	2,552,801	—	54,671	3,023	2,610,495
Swiss Franc .....	915,411	—	3,412	1,237	920,060
Canadian Dollar .....	871,872	—	8,525	845	881,242
Hong Kong Dollar .....	758,084	—	47,227	1,064	806,375
Australian Dollar .....	699,172	—	27,617	1,110	727,899
Swedish Krona .....	342,730	—	2,609	173	345,512
South Korean Won .....	321,467	—	—	556	322,023
Singapore Dollar .....	193,493	—	12,544	166	206,203
New Taiwan Dollar .....	168,544	—	—	—	168,544
Danish Krone .....	160,369	—	—	333	160,702
Indian Rupee .....	152,465	—	—	—	152,465
Other Currencies .....	626,023	—	3,131	1,511	630,665
Total .....	<u>\$ 14,379,242</u>	<u>\$ 502,714</u>	<u>\$ 373,345</u>	<u>\$ 16,602</u>	<u>\$ 15,271,903</u>

The State Treasurer has no formal policy regarding the maximum amount of investments in international securities. At year-end, the retirement systems had approximately 18% invested in international securities. The Investment Pool recognized an aggregate foreign currency transaction loss of \$161.75 million for the fiscal year ended June 30, 2013. Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated.

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

**Securities Lending**

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

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the custodian. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities lent. Under the current guidelines cash can be invested in securities ranging from overnight to 397 days and the custodian is not

**NOTES TO THE FINANCIAL STATEMENTS**

permitted to make investments where the weighted average maturity of all investments exceeds 60 days. At year-end, the weighted average maturity of investments was approximately 30 days.

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

During the market crisis of late 2008, there was a default in a Lehman Brothers floating rate note in which securities lending collateral had been invested. Since that time, several other investments with potential losses were identified. The State Treasurer directed that all securities lending revenues would be deposited into a separate account. These funds are invested into a collective investment trust fund, and are included on the Statement of Net Position. The purpose of the separate account is to provide a reserve account to offset expected losses. At year-end, the State Treasurer had an unrealized loss in the Securities Lending Collateral pool of \$232 million, and had accrued \$172.5 million in the separate account.

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

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

**Bond Proceeds Investment Accounts**

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

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity (Days)</u>
Debt investments:		
Repurchase agreements .....	\$43,151	8
Total investments .....	<u>\$43,151</u>	

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

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

**Public Hospitals Investment Account**

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust, New Hanover Regional Medical Center Trust, Columbus Regional Healthcare Trust and Watauga Medical Center Trust. These Trusts are part of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using quoted market prices provided by third party professionals. One public hospital is a participant in the Investment Pool's Long-term Investment portfolio.

**NOTES TO THE FINANCIAL STATEMENTS**

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

Investment Type	Carrying Amount
Other investments:	
Equity based trust - domestic .....	\$ 75,318
Equity based trust - international .....	21,099
External investment pool-long-term .....	3,042
Total investments .....	\$ 99,459

*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 was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type	
	Equity Based Trust-	International
Euro .....	\$	4,346
Japanese Yen .....		3,511
British Pound Sterling .....		3,300
Swiss Franc .....		1,437
Australian Dollar .....		1,290
Hong Kong Dollar .....		1,236
Canadian Dollar .....		981
South Korean Won .....		646
Brazilian Real .....		389
Danish Krone .....		387
South African Rand .....		374
Norwegian Krone .....		271
Swedish Krona .....		201
Malaysian Ringgit .....		197
Thai Baht .....		195
Other Currencies .....		520
Total .....	\$	19,281

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 .....	\$ 37,673
Public equities - domestic .....	7
Total investments .....	\$ 37,680

**NOTES TO THE FINANCIAL STATEMENTS**

**B. Deposits Outside the State Treasurer**

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

**Primary Government**

The majority of deposits held outside the State Treasurer were maintained by the various clerks of superior court. The clerks of superior court do not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized....	<u>\$ 7,538</u>
Total.....	<u>\$ 7,538</u>

**Component Units**

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

Uninsured and uncollateralized.....	\$ 231,554
Uninsured and collateral held by pledging bank.....	496
Uninsured and collateral held by pledging bank's trust department or agent but not in the State's name....	<u>111</u>
Total.....	<u>\$ 232,161</u>

**C. Investments Outside the State Treasurer**

**Primary Government**

At year-end, 83% 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, 2012, 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 \$4.788 billion. The remainder of the investments consists of those in the Stable Value Fund supported by five wrap contracts.

## NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries.....	\$ 114,496	\$ 547	\$ 96,410	\$ 16,173	\$ 1,366
U.S. Treasury STRIPS.....	34,931	—	14,125	19,361	1,445
U.S. agencies.....	10,867	2,260	8,373	234	—
Mortgage pass-throughs.....	61,001	—	13,574	10,659	36,768
Collateralized mortgage obligations.....	109,430	13,081	—	19,938	76,411
State and local government.....	7,190	3,738	2,753	—	699
Asset-backed securities.....	37,416	9,683	18,288	6,651	2,794
Collective investment funds.....	1,361,012	135,711	983,460	241,841	—
Money market mutual funds.....	45,300	45,300	—	—	—
Pooled debt funds.....	254,047	—	—	254,047	—
Domestic corporate bonds.....	134,942	9,641	96,004	21,062	8,235
Foreign corporate bonds.....	49,758	12,839	32,113	3,837	969
Foreign government bonds.....	28,564	289	28,100	—	175
	<u>2,248,954</u>	<u>\$ 233,089</u>	<u>\$ 1,293,200</u>	<u>\$ 593,803</u>	<u>\$ 128,862</u>
Other investments:					
Equity mutual funds.....	1,672,014				
Unallocated insurance contracts.....	818,609				
Domestic stocks.....	1,856,001				
Foreign stocks.....	461,984				
Other.....	696				
Total investments.....	<u>\$ 7,058,258</u>				

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the Statement of Net Position, SGICs are reported at contract value. At year-end, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by \$51.07 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. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Commercial mortgage-backed securities, which are included in asset-backed securities, are asset-backed securities whose cash flows are backed by the principal and interest payments of commercial or multifamily property mortgage loans. The sensitivity to changes in interest is considered lower as these types of securities are usually collateralized by fixed-rate mortgages that often contain lockout provisions for prepayment or are subject to prepayment penalties. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investments funds are sensitive to changes in interest rates. Collateralized mortgage obligations generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value sensitive to

**NOTES TO THE FINANCIAL STATEMENTS**

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

*Credit Risk.* The 401(k) and 457 Plans have a formal investment policy on credit risk. The Plan's investment policy for the Stable Value Fund requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's (S&P) or Fitch rating of BBB- or Moody's rating of Baa3. The average credit quality of the underlying fixed income investments in the Stable Value Fund will be S&P AA or Moody's Aa2. The Plans' investment policy for the Pooled Separate Account SA-NC requires that debt securities are intended to have an average quality rating of A- or better. The Plans' investment policy for the Pooled Separate Account SA-NC permits investments in issues rated below investment grade, but those securities should not exceed 20% of the fixed income assets. At year-end, the 401(k) and 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ —	\$ 6,826	\$ —	\$ —	\$ —	\$ 235
Mortgage pass-throughs.....	—	53,390	—	—	—	1,212
Collateralized mortgage obligations.	8,769	70,136	4,418	2,593	4,180	3,250
State and local government.....	1,925	1,150	4,115	—	—	—
Asset-backed securities.....	29,896	3,510	950	601	233	—
Collective investment funds.....	—	—	—	—	—	1,361,012
Money market mutual funds.....	—	—	—	—	—	45,300
Pooled debt funds.....	—	—	—	—	—	254,047
Domestic corporate bonds.....	547	6,082	53,419	71,809	1,843	1,242
Foreign corporate bonds.....	4,725	6,018	21,636	17,379	—	—
Foreign government bonds.....	12,496	4,445	5,826	5,797	—	—
	<u>\$ 58,358</u>	<u>\$ 151,557</u>	<u>\$ 90,364</u>	<u>\$ 98,179</u>	<u>\$ 6,256</u>	<u>\$ 1,666,298</u>

*Custodial Credit Risk.* The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk. At December 31, 2012, 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.....	\$	114,496
U.S. Treasury STRIPS.....		34,931
U.S. agencies.....		10,867
Mortgage pass-throughs.....		61,001
Collateralized mortgage obligations....		109,430
State and local government.....		7,190
Asset-backed securities.....		37,416
Domestic corporate bonds.....		134,942
Foreign corporate bonds.....		49,758
Foreign government bonds.....		28,564
Domestic stocks.....		1,856,001
Foreign stocks.....		461,984
Total.....	<u>\$</u>	<u>2,906,580</u>

**NOTES TO THE FINANCIAL STATEMENTS**

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The 401(k) and 457 Plans do not have formal investment policies that address foreign currency risk.

Currency	Carrying Amount	
	Foreign stocks	
Euro.....	\$	121,238
British Pound Sterling.....		81,619
Japanese Yen.....		69,574
Hong Kong Dollar.....		31,577
Swiss Franc.....		23,250
Swedish Krona.....		19,491
Australian Dollar.....		17,334
South Korean Won.....		14,554
Canadian Dollar.....		14,084
Singapore Dollar.....		11,732
South African Rand.....		9,358
Turkish Lira.....		8,657
New Taiwan Dollar.....		8,232
Indian Rupee.....		7,646
Danish Krone.....		6,834
Other Currencies.....		16,804
Total.....	\$	<u>461,984</u>

**Other Primary Government Investments**

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

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

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries.....	\$ 8,001	\$ —	\$ 7,640	\$ 361	\$ —
U.S. Treasury STRIPS.....	389	252	137	—	—
U.S. agencies.....	88,125	7,035	79,036	2,054	—
Collateralized mortgage obligations.....	16	—	—	2	14
Repurchase agreements.....	501,765	501,765	—	—	—
Annuity contracts.....	53,820	4,154	20,770	20,770	8,126
Debt mutual funds.....	450	—	—	450	—
Money market mutual funds.....	166,967	166,965	2	—	—
Pooled debt funds.....	465,642	465,636	—	—	6
	1,285,175	<u>\$ 1,145,807</u>	<u>\$107,585</u>	<u>\$ 23,637</u>	<u>\$ 8,146</u>
Other investments:					
Equity mutual funds.....	302				
Real estate investment trust.....	136				
Hedge funds.....	147				
Domestic stocks.....	69,351				
Other .....	5				
Total investment securities.....	<u>\$ 1,355,116</u>				

**NOTES TO THE FINANCIAL STATEMENTS**

*Interest Rate Risk and Credit Risk.* The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants for certain issues, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank with a short-term rating not less than P-1 from Moody's and not less than A-1 from S&P and Fitch; or 2) any commercial bank, trust company, or national banking association rated A or better by Moody's, S&P and Fitch, the deposits of which are insured by the Federal Deposit Insurance Corporation. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate risk.

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

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ 88,125	\$ —	\$ —	\$ —	\$ —	\$ —
Collateralized mortgage obligations..	2	1	—	—	13	—
Annuity contracts.....	—	53,820	—	—	—	—
Debt mutual funds.....	—	176	167	—	107	—
Money market mutual funds.....	166,679	283	—	—	—	5
Pooled debt funds.....	6	—	—	—	—	465,636
Total.....	<u>\$ 254,812</u>	<u>\$ 54,280</u>	<u>\$ 167</u>	<u>\$ —</u>	<u>\$ 120</u>	<u>\$ 465,641</u>

*Custodial Credit Risk.* There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer. At year-end, the other primary government investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount	
	Held by Counterparty's Trust Dept. or Agent but not in Agency's Name	
Collateralized mortgage obligations..	\$	16
Domestic stocks.....		904
Total	\$	<u>920</u>

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

**Component Units****University of North Carolina System**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

estimation, which includes discounted cash flow and transaction comparison. The estimated fair value of these investments is \$1.16 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.....	\$ 117,505	\$ 11,512	\$ 95,360	\$ 10,604	\$ 29
U.S. agencies.....	105,249	14,108	19,451	7,100	64,590
Mortgage pass-throughs.....	13,046	2,113	4,671	1,048	5,214
Collateralized mortgage obligations.....	74,747	18,199	4	224	56,320
State and local government.....	1,878	432	—	40	1,406
Asset-backed securities.....	19,751	13,817	89	494	5,351
Collective investment funds.....	22,656	22,656	—	—	—
Commercial paper.....	286	286	—	—	—
Annuity contracts.....	65	—	—	—	65
Debt mutual funds.....	148,206	729	39,937	103,377	4,163
Money market mutual funds.....	302,196	294,734	7,462	—	—
Domestic corporate bonds.....	53,715	4,737	38,110	6,581	4,287
Foreign corporate bonds.....	7,237	594	3,355	3,288	—
Foreign government bonds.....	33	—	—	—	33
	<u>866,570</u>	<u>\$ 383,917</u>	<u>\$ 208,439</u>	<u>\$ 132,756</u>	<u>\$ 141,458</u>
Other investments:					
Balanced mutual funds.....	41,670				
International mutual funds.....	244,374				
Equity mutual funds.....	179,469				
Investments in real estate.....	35,485				
Real estate investment trust.....	54,570				
Hedge funds.....	1,916,252				
Private equity limited partnerships.....	868,147				
Real assets limited partnerships.....	489,551				
Pooled investments.....	1,392				
Unallocated insurance contracts.....	484				
Domestic stocks.....	219,042				
Foreign stocks.....	16,265				
Other.....	32,300				
Total investments.....	<u>\$ 4,965,571</u>				

**NOTES TO THE FINANCIAL STATEMENTS**

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

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ 604	\$ 102,249	\$ —	\$ —	\$ —	\$ 296
Mortgage pass-throughs.....		33	—	31	2,113	10,869
Collateralized mortgage obligations..	46	43,020	307	29	26,604	4,741
State and local government.....	5	1,126	214	84	6	14
Asset-backed securities.....	—	—	—	1,650	18,006	7
Collective investment funds.....	—	—	—	22,656	—	—
Commercial paper.....	—	—	—	—	—	286
Debt mutual funds.....	3,434	29,107	27,782	77,163	1,217	9,503
Money market mutual funds.....	286,249	—	63	—	—	8,276
Domestic corporate bonds.....	—	12,847	33,503	4,979	453	—
Foreign corporate bonds.....	—	1,218	4,075	1,350	—	—
Foreign government bonds.....	—	—	33	—	—	—
Total.....	<u>\$ 290,338</u>	<u>\$ 189,600</u>	<u>\$ 65,977</u>	<u>\$ 107,942</u>	<u>\$ 48,399</u>	<u>\$ 33,992</u>

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

Investment Type	Carrying Amount	
	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in the State's name
U.S. Treasuries.....	\$ 23,089	\$ 9,292
U.S. agencies.....	2,416	—
Mortgage pass-throughs.....	10,869	—
Collateralized mortgage obligations..	147	—
State and local government.....	429	1,332
Asset-backed securities.....	—	89
Domestic corporate bonds.....	17,599	11,790
Foreign corporate bonds.....	594	6,353
Domestic stocks.....	19,637	67
Foreign stocks.....	521	15
Total .....	<u>\$ 75,301</u>	<u>\$ 28,938</u>

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

Currency	Carrying Amount			
	Foreign stocks	Hedge funds	Private equity limited partnerships	Real assets limited partnerships
Euro.....	\$ 49	\$ 27,506	\$ 84,614	\$ 22,355
Canadian Dollar.....	10,397	—	7,059	—
British Pound Sterling....	50	—	8,846	3,662
Australian Dollar.....	23	—	7,681	—
Other Currencies.....	12	—	7	—
Total.....	<u>\$ 10,531</u>	<u>\$ 27,506</u>	<u>\$ 108,207</u>	<u>\$ 26,017</u>

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

Receivables at June 30, 2013, are reported net of allowances for doubtful accounts as follows (dollars in thousands):

**Governmental Activities:**

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds	Total
Receivables, gross (excluding notes)..	\$ 4,376,308	\$ 289,450	\$ 43,741	\$ 24,493	\$ 12,863	\$ 4,746,855
Allowance for doubtful accounts.....	(1,010,091)	(45,302)	—	(19)	—	(1,055,412)
Receivables, net.....	<u>\$ 3,366,217</u>	<u>\$ 244,148</u>	<u>\$ 43,741</u>	<u>\$ 24,474</u>	<u>\$ 12,863</u>	<u>\$ 3,691,443</u>
Notes receivable, gross.....	\$ 99,896	\$ 789	\$ 62	\$ 40,637	\$ —	\$ 141,384
Allowance for doubtful accounts.....	(51,916)	—	—	—	—	(51,916)
Notes receivable, net.....	<u>\$ 47,980</u>	<u>\$ 789</u>	<u>\$ 62</u>	<u>\$ 40,637</u>	<u>\$ —</u>	<u>\$ 89,468</u>

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are \$22.995 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)..	\$ 735,095	\$ 3,520	\$ 17,792	\$ 6,082	\$ 4,077	\$ 766,566
Allowance for doubtful accounts.....	(116,575)	—	—	—	(32)	(116,607)
Receivables, net.....	<u>\$ 618,520</u>	<u>\$ 3,520</u>	<u>\$ 17,792</u>	<u>\$ 6,082</u>	<u>\$ 4,045</u>	<u>\$ 649,959</u>
Notes receivable, gross.....	\$ —	\$ 939,594	\$ —	\$ —	\$ 117	\$ 939,711
Notes receivable, net.....	<u>\$ —</u>	<u>\$ 939,594</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 117</u>	<u>\$ 939,711</u>

Within business-type activities, the significant receivables not expected to be collected within one year are \$872.355 million of notes receivable in the EPA Revolving Loan Fund and \$43.383 million of contributions receivable in the Unemployment Compensation Fund. Revenues of other enterprise funds are net of uncollectible amounts.

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

**Primary Government.** A summary of changes in capital assets for the year ended June 30, 2013 is presented below (dollars in thousands).

<b>Governmental Activities:</b>	<b>Balance July 1, 2012 (as restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2013</b>
<b>Capital Assets, nondepreciable:</b>				
Land and permanent easements .....	\$ 15,040,007	\$ 626,282	\$ (4,500)	\$ 15,661,789
Art, literature, and other artifacts .....	91,135	8,748	(704)	99,179
Construction in progress .....	1,872,244	1,610,815	(1,534,072)	1,948,987
Computer software in development .....	283,943	169,615	—	453,558
Total capital assets-nondepreciable .....	<u>17,287,329</u>	<u>2,415,460</u>	<u>(1,539,276)</u>	<u>18,163,513</u>
<b>Capital Assets, depreciable:</b>				
Buildings .....	3,609,052	185,260	(13,007)	3,781,305
Machinery and equipment .....	1,631,415	141,566	(87,927)	1,685,054
General infrastructure .....	238,358	4,283	(734)	241,907
State highway system .....	28,545,824	1,329,539	(69,894)	29,805,469
Computer software .....	22,681	13,500	—	36,181
Total capital assets-depreciable .....	<u>34,047,330</u>	<u>1,674,148</u>	<u>(171,562)</u>	<u>35,549,916</u>
<b>Less accumulated depreciation for:</b>				
Buildings .....	(937,614)	(67,402)	2,753	(1,002,263)
Machinery and equipment .....	(1,062,977)	(97,291)	66,929	(1,093,339)
General infrastructure .....	(76,645)	(5,148)	621	(81,172)
State highway system .....	(8,214,878)	(596,109)	68,497	(8,742,490)
Computer software .....	(5,483)	(1,682)	—	(7,165)
Total accumulated depreciation .....	<u>(10,297,597)</u>	<u>(767,632)</u>	<u>138,800</u>	<u>(10,926,429)</u>
Total capital assets-depreciable, net .....	<u>23,749,733</u>	<u>906,516</u>	<u>(32,762)</u>	<u>24,623,487</u>
Governmental activities capital assets, net .....	<u>\$ 41,037,062</u>	<u>\$ 3,321,976</u>	<u>\$ (1,572,038)</u>	<u>\$ 42,787,000</u>

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

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
<b>Capital Assets, nondepreciable:</b>				
Land and permanent easements .....	\$ 143,664	\$ 11,220	\$ —	\$ 154,884
Construction in progress .....	694,181	94,585	(621,095)	167,671
Total capital assets-nondepreciable .....	<u>837,845</u>	<u>105,805</u>	<u>(621,095)</u>	<u>322,555</u>
<b>Capital Assets, depreciable:</b>				
Buildings .....	50,506	5,587	—	56,093
Machinery and equipment .....	16,017	2,323	(894)	17,446
General infrastructure .....	15,654	399	—	16,053
State highway system .....	185,794	620,692	—	806,486
Computer software .....	180	—	—	180
Total capital assets-depreciable .....	<u>268,151</u>	<u>629,001</u>	<u>(894)</u>	<u>896,258</u>
<b>Less accumulated depreciation for:</b>				
Buildings .....	(21,895)	(2,377)	—	(24,272)
Machinery and equipment .....	(9,827)	(1,790)	853	(10,764)
General infrastructure .....	(10,747)	(330)	—	(11,077)
State highway system .....	(1,858)	(9,923)	—	(11,781)
Computer software .....	(135)	(19)	—	(154)
Total accumulated depreciation .....	<u>(44,462)</u>	<u>(14,439)</u>	<u>853</u>	<u>(58,048)</u>
Total capital assets-depreciable, net .....	<u>223,689</u>	<u>614,562</u>	<u>(41)</u>	<u>838,210</u>
Business-type activities				
capital assets, net .....	<u>\$ 1,061,534</u>	<u>\$ 720,367</u>	<u>\$ (621,136)</u>	<u>\$ 1,160,765</u>

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

General government .....	\$ 30,555
Primary and secondary education .....	1,826
Higher education .....	106
Health and human services .....	15,599
Economic development .....	1,557
Environment and natural resources .....	13,729
Public safety, corrections, and regulation .....	52,040
Transportation .....	645,880
Agriculture .....	6,340
Total depreciation expense .....	<u>\$ 767,632</u>

**Business-type activities:**

N.C. State Lottery .....	\$ 346
EPA Revolving Loan .....	23
N.C. Turnpike Authority .....	9,931
Regulatory programs .....	1,527
North Carolina State Fair .....	506
Other business-type activities .....	2,106
Total depreciation expense .....	<u>\$ 14,439</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**Component Units** (University of North Carolina System and community colleges). Capital asset activity for the University of North Carolina System and community colleges for the fiscal year ended June 30, 2013, was as follows (dollars in thousands):

<b>University of North Carolina System:</b>	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2013</b>
	<b>(as restated)</b>			
<b>Capital Assets, nondepreciable:</b>				
Land and permanent easements .....	\$ 376,534	\$ 9,248	\$ (302)	\$ 385,480
Art, literature, and other artifacts .....	146,915	4,467	(77)	151,305
Construction in progress .....	1,016,548	666,248	(714,854)	967,942
Computer software in development .....	30,266	18,283	(2,197)	46,352
Other intangible assets .....	1,000	—	—	1,000
Total capital assets-nondepreciable .....	<u>1,571,263</u>	<u>698,246</u>	<u>(717,430)</u>	<u>1,552,079</u>
<b>Capital Assets, depreciable:</b>				
Buildings .....	10,555,422	703,042	(15,561)	11,242,903
Machinery and equipment .....	2,176,544	194,682	(52,929)	2,318,297
Art, literature, and other artifacts .....	1,233	—	—	1,233
General infrastructure .....	1,659,668	123,206	(1,322)	1,781,552
Computer software .....	142,239	20,262	(27)	162,474
Other intangible assets .....	5,020	7,705	—	12,725
Total capital assets-depreciable .....	<u>14,540,126</u>	<u>1,048,897</u>	<u>(69,839)</u>	<u>15,519,184</u>
<b>Less accumulated depreciation for:</b>				
Buildings .....	(2,877,002)	(246,536)	11,744	(3,111,794)
Machinery and equipment .....	(1,336,659)	(127,804)	43,311	(1,421,152)
Art, literature, and other artifacts .....	(440)	(35)	—	(475)
General infrastructure .....	(505,620)	(58,550)	568	(563,602)
Computer software .....	(70,119)	(12,382)	27	(82,474)
Other intangible assets .....	(2,291)	(37)	—	(2,328)
Total accumulated depreciation .....	<u>(4,792,131)</u>	<u>(445,344)</u>	<u>55,650</u>	<u>(5,181,825)</u>
Total capital assets-depreciable, net .....	<u>9,747,995</u>	<u>603,553</u>	<u>(14,189)</u>	<u>10,337,359</u>
University of North Carolina System capital assets, net .....	<u>\$ 11,319,258</u>	<u>\$ 1,301,799</u>	<u>\$ (731,619)</u>	<u>\$ 11,889,438</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2013, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$43.711 million and net depreciable capital assets of \$103.384 million.

**NOTES TO THE FINANCIAL STATEMENTS****Community Colleges:**

	<b>Balance July 1, 2012 (as restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2013</b>
<b>Capital Assets, nondepreciable:</b>				
Land and permanent easements .....	\$ 162,878	\$ 907	\$ (464)	\$ 163,321
Art, literature, and other artifacts .....	360	13	—	373
Construction in progress .....	174,283	95,771	(140,084)	129,970
Total capital assets-nondepreciable .....	<u>337,521</u>	<u>96,691</u>	<u>(140,548)</u>	<u>293,664</u>
<b>Capital Assets, depreciable:</b>				
Buildings .....	2,382,336	148,362	(3,670)	2,527,028
Machinery and equipment .....	334,493	39,789	(13,334)	360,948
Art, literature, and other artifacts .....	535	—	—	535
General infrastructure .....	153,744	14,153	(10,820)	157,077
Computer software .....	1,207	—	—	1,207
Total capital assets-depreciable .....	<u>2,872,315</u>	<u>202,304</u>	<u>(27,824)</u>	<u>3,046,795</u>
<b>Less accumulated depreciation for:</b>				
Buildings .....	(607,115)	(49,176)	1,869	(654,422)
Machinery and equipment .....	(131,345)	(20,130)	9,102	(142,373)
Art, literature, and other artifacts .....	(98)	(16)	—	(114)
General infrastructure .....	(38,829)	(3,293)	1,272	(40,850)
Computer software .....	(493)	(121)	—	(614)
Total accumulated depreciation .....	<u>(777,880)</u>	<u>(72,736)</u>	<u>12,243</u>	<u>(838,373)</u>
Total capital assets-depreciable, net .....	<u>2,094,435</u>	<u>129,568</u>	<u>(15,581)</u>	<u>2,208,422</u>
Community Colleges capital assets, net .....	<u>\$ 2,431,956</u>	<u>\$ 226,259</u>	<u>\$ (156,129)</u>	<u>\$ 2,502,086</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2013, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$4.718 million and net depreciable capital assets of \$7.577 million.

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

At the University of North Carolina at Chapel Hill, commercial paper was issued from the University of North Carolina General Revenue Bonds, Series 2012A and 2012B, to provide interim financing for the construction of capital projects. The amount of outstanding commercial paper as of June 30, 2013 was \$18 million.

North Carolina State University has available commercial paper program financing for short-term credit up to \$100 million to finance capital construction projects. The University's available funds are pledged to the commercial paper program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2013, there was no outstanding balance.

On February 19, 2013, Winston-Salem State University entered into a loan agreement with First Tennessee Bank for \$12.8 million to be repaid with bond proceeds received in July 2013. The proceeds were used to pay for the continued construction on the new Student Activities Center and Student Success Center. The amount of outstanding anticipation notes as of June 30, 2013 was \$12.8 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, 2013 was \$14.855 million.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2013, is as follows (dollars in thousands):

	<b>Balance July 1, 2012 (as restated)</b>	<b>Draws</b>	<b>Repayments</b>	<b>Balance June 30, 2013</b>
<b><u>University of North Carolina System</u></b>				
Commercial paper program.....	\$ 182,650	\$ 57,000	\$ (221,650)	\$ 18,000
Anticipation notes.....	—	12,800	—	12,800
Line of credit.....	15,773	30,917	(31,835)	14,855
Total short-term debt.....	<u>\$ 198,423</u>	<u>\$ 100,717</u>	<u>\$ (253,485)</u>	<u>\$ 45,655</u>

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

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

Type	Changes in Fair Value		Fair Value at June 30, 2013		Notional
	Classification	Increase (Decrease)	Classification	Debit (Credit)	
<b>Primary Government</b>					
<b>Fiduciary Funds</b>					
Investment derivatives:					
U.S. dollar equity futures	Investment earnings	\$ (13,567)	State Treasurer Investment Pool	\$ (13,567)	\$895,957
Foreign equity futures	Investment earnings	(10,489)	State Treasurer Investment Pool	(10,489)	(a)
Commodity futures	Investment earnings	(37,681)	State Treasurer Investment Pool	(37,681)	(b)
Total		<u>\$ (61,737)</u>		<u>\$ (61,737)</u>	
<b>Component Units</b>					
<b>University of North Carolina System</b>					
Cash flow hedges:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Deferred outflow of resources	\$ 42,468	Hedging derivatives liability	\$ (80,427)	\$250,000
N.C. State University	Deferred outflow of resources	5,349	Hedging derivatives liability	(12,216)	\$ 74,655
UNC at Pembroke	Deferred outflow of resources	240	Hedging derivatives liability	(2,551)	\$ 9,780
N.C. Central University	Deferred outflow of resources	(546)	Hedging derivatives liability	(1,106)	\$ 7,488
UNC Hospitals	Deferred outflow of resources	8,352	Hedging derivatives liability	(18,480)	\$127,705
Total		<u>\$ 55,863</u>		<u>\$ (114,780)</u>	
Investment derivatives:					
UNC at Chapel Hill:					
Pay-fixed interest rate swap	Operating grants and contributions	\$ 1,382	Accounts payable	\$ (4,204)	\$ 18,590
U.S. dollar equity futures	Operating grants and contributions	(1,632)	Investments	56,855	\$ 58,487
Foreign equity futures	Operating grants and contributions	318	Investments	21,064	(c)
Total		<u>\$ 68</u>		<u>\$ 73,715</u>	

(a) 20.51 billion yen, 223.77 million euros, and 147.84 million pounds sterling.

(b) 76,100 troy ounces of gold; 1.21 million U.S. barrels of crude oil; 27.48 million MMBTUs of natural gas; 17.43 million pounds of copper; 1.42 million troy ounces of silver; 10.9 million bushels of corn; 6.51 million bushels of wheat; 26,750 metric tons of aluminum; and 13.99 million U.S. gallons of gasoline.

(c) 2.1 billion yen.

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

The fair values of interest rate swaps at the University of North Carolina (UNC) at Chapel Hill were provided either by their financial advisor or by the counterparty. The method used by their financial advisor 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 London Interbank Offered Rate (LIBOR) due on the date of each future net settlement on the swap. The method used by their counterparty calculated the present value of all expected future payments on the swap based on forward curves discounted at current market rates.

The fair value of the interest rate swap at UNC at Pembroke was estimated using the zero coupon method. This method calculates 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 are 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.

**NOTES TO THE FINANCIAL STATEMENTS**

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 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, 2013 (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, 2002A, 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, 2002A, 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	\$ 9,780	11/1/01	7/1/31	Pay 3.96%; 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	\$ 7,488	4/1/04	10/1/24	Pay 3.52%; receive 70% of one month LIBOR
UNC Hospitals					
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2003A&B Series bonds	\$ 92,905	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	\$ 34,800	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, 2013. The fair values are calculated as of June 30, 2013. 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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

*N.C. State University*

*Interest rate risk.* N.C. State University (University) is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2013. 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, 2013. Both of the swaps outstanding have termination dates greater than 13 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, 2013, the SIFMA rate was 0.06%, 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, 2013, 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, 2013, the interest rate upon the demand bond was 0.06%.

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

*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, 2013. 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 risks 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 is 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, 2013, no termination events had occurred and there was no known date when the derivative instrument may be terminated. The swap

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**NOTES TO THE FINANCIAL STATEMENTS**

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, 2013.

*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, 2013. 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, 2013.

*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, foreign equity futures, and commodity futures. The investment disclosures for these derivatives are included as part of the equity based trust and inflation portfolios which are included in the Investment Pool. More detailed information about the Investment Pool is presented in Note 3A.

**Component Units**

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

**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, 2013. 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, 2013. 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, 2013, SIFMA was 0.06%. The interest rate swap has a notional amount of \$18.59 million and matures November 1, 2025.

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

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**NOTES TO THE FINANCIAL STATEMENTS****D. Synthetic Guaranteed Investment Contracts****Primary Government**

In the Supplemental Retirement Income Plan of North Carolina, 401(k) Plan, there are synthetic guaranteed investment contracts (SGICs) within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There are two SGICs with The Prudential Insurance Company of America (Prudential) and one SGIC with United of Omaha Life Insurance Company (United of Omaha) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 3.51%, 1.84% and 2.36%, respectively. The fair value of the securities covered by the contracts as of December 31, 2012, is \$958 million and the contract value is \$917 million. 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 and one SGIC with United of Omaha which are all fully benefit responsive. The SGICs provided an average credit rating yield of 3.61%, 1.9% and 2.33%, respectively. The fair value of the securities covered by the contracts as of December 31, 2012, is \$208 million and the contract value is \$198 million. The contracts are unrated and have a maturity of less than one year.

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

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8: LONG-TERM LIABILITIES

## A. Changes in Long-Term Liabilities

**Primary Government.** Long-term liability activity for the year ended June 30, 2013, was as follows (dollars in thousands):

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year
<b>Governmental activities:</b>					
Bonds and similar debt payable:					
General obligation bonds .....	\$ 4,470,500	\$ 1,320,970	\$ (1,791,890)	\$ 3,999,580	\$ 364,935
Special indebtedness:					
Lease-purchase revenue bonds .....	30,915	—	(10,000)	20,915	10,000
Certificates of participation .....	557,895	—	(49,395)	508,500	49,630
Limited obligation bonds .....	1,795,090	250,000	(51,350)	1,993,740	61,225
GARVEE bonds .....	512,085	—	(57,265)	454,820	59,545
Less deferred amounts:					
On refunding .....	(141,108)	(26,543)	33,843	(133,808)	—
Add issuance premium .....	485,615	284,428	(146,938)	623,105	—
Total bonds and similar debt payable .....	<u>7,710,992</u>	<u>1,828,855</u>	<u>(2,072,995)</u>	<u>7,466,852</u>	<u>545,335</u>
Notes payable .....	35,691	8,979	(5,358)	39,312	5,809
Capital leases payable .....	21,282	401	(2,308)	19,375	1,525
Compensated absences .....	409,381	265,136	(248,803)	425,714	25,275
Net pension obligation .....	2,766	32,410	(33,949)	1,227	—
Workers' compensation .....	136,732	73,227	(59,708)	150,251	46,248
Deferred death benefit payable .....	510	—	(110)	400	200
Pollution remediation payable .....	6,485	—	(208)	6,277	283
Claims and judgments payable .....	<u>731,703</u>	<u>10,000</u>	<u>—</u>	<u>741,703</u>	<u>—</u>
Governmental activity long-term liabilities .....	<u>\$ 9,055,542</u>	<u>\$ 2,219,008</u>	<u>\$ (2,423,439)</u>	<u>\$ 8,851,111</u>	<u>\$ 624,675</u>
<b>Business-type activities:</b>					
Bonds payable:					
Revenue bonds .....	\$ 1,081,183	\$ —	\$ (22,725)	\$ 1,058,458	\$ 19,150
GARVEE bonds .....	145,535	—	—	145,535	—
Less deferred amounts:					
For issuance discounts .....	(2,012)	—	116	(1,896)	—
Add issuance premium .....	31,507	—	(2,846)	28,661	—
Total bonds payable .....	<u>1,256,213</u>	<u>—</u>	<u>(25,455)</u>	<u>1,230,758</u>	<u>19,150</u>
Notes payable .....	286,818	91,085	(437)	377,466	197
Annuity and life income payable .....	49,167	8,403	(3,750)	53,820	4,154
Federal unemployment account advances .....	2,565,522	1,058,793	(1,469,544)	2,154,771	1,300,000
Compensated absences .....	<u>7,044</u>	<u>5,477</u>	<u>(5,104)</u>	<u>7,417</u>	<u>586</u>
Business-type activity long-term liabilities .....	<u>\$ 4,164,764</u>	<u>\$ 1,163,758</u>	<u>\$ (1,504,290)</u>	<u>\$ 3,824,232</u>	<u>\$ 1,324,087</u>

For governmental activities, the compensated absences, net pension obligation, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of \$5.941 million and capital leases payable of \$446 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**

**Component Unit (University of North Carolina System).** Long-term liability activity for the year ended June 30, 2013, was as follows (dollars in thousands):

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013	Due Within One Year
<b>University of North Carolina System:</b>					
Bonds payable:					
Revenue bonds .....	\$ 3,272,251	\$ 825,427	\$ (319,052)	\$ 3,778,626	\$ 210,285
Certificates of participation .....	234,258	9,400	(14,948)	228,710	5,690
Less deferred amounts:					
For issuance discounts .....	(21,344)	(370)	4,330	(17,384)	—
On refunding .....	(31,283)	(4,240)	4,474	(31,049)	—
Add issuance premium .....	84,663	33,423	(13,563)	104,523	—
Total bonds payable .....	3,538,545	863,640	(338,759)	4,063,426	215,975
Notes payable .....	302,466	60,193	(48,825)	313,834	14,014
Capital leases payable .....	40,038	19,978	(13,782)	46,234	6,242
Arbitrage rebate payable .....	125	100	—	225	—
Annuity and life income payable .....	22,967	558	(1,678)	21,847	1,465
Compensated absences .....	355,536	280,573	(253,712)	382,397	44,008
Pollution remediation payable .....	10	—	—	10	—
Liability insurance trust fund payable .....	48,885	5,482	(10,085)	44,282	9,282
Total long-term liabilities .....	<u>\$ 4,308,572</u>	<u>\$ 1,230,524</u>	<u>\$ (666,841)</u>	<u>\$ 4,872,255</u>	<u>\$ 290,986</u>

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2013, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of \$168.98 million, of which \$28.009 million was due within one year and \$140.971 million was due in more than one year.

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

Bonds, special indebtedness, and notes payable at June 30, 2013 were as follows (dollars in thousands):

	<b>Interest Rates</b>	<b>Maturing Through Fiscal Year</b>	<b>Original Borrowing</b>	<b>Outstanding Balance</b>
<b>Primary Government:</b>				
<u>Governmental activities</u>				
General obligation bonds.....	3.00% - 5.50%	2030	\$ 7,503,220	\$ 3,999,580
Special indebtedness:				
Lease-purchase revenue bonds.....	3.50% - 5.25%	2025	272,045	20,915
Certificates of participation.....	4.00% - 5.25%	2028	1,064,840	508,500
Limited obligation bonds.....	2.25% - 5.25%	2033	2,117,350	1,993,740
GARVEE bonds.....	2.00% - 5.21%	2021	709,625	454,820
Notes payable.....	0.00% - 3.86%	2028	51,889	39,312
<u>Business-type activities</u>				
Revenue bonds**.....	2.48% - 7.10%	2042	\$ 1,081,183	\$ 1,058,458
GARVEE bonds.....	2.00% - 4.00%	2023	145,535	145,535
Notes payable.....	2.11% - 4.85%	2043	378,299	377,466
<b>Component Units:</b>				
<u>University of North Carolina System</u>				
Revenue bonds**.....	0.05% - 10.00%*	2043	\$ 4,454,701	\$ 3,778,626
Certificates of participation.....	2.00% - 5.25%	2039	255,965	228,710
Notes payable.....	0.40% - 6.75%*	2030	341,253	313,834

\* For variable rate debt, interest rates in effect at June 30, 2013 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 equal to 35% of the interest payable on these obligations. The outstanding balance of "Build America Bonds" was \$586.6 million for the primary government and \$408.26 million for component units. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

**C. Bonds Authorized but Unissued**

The amount of authorized but unissued special indebtedness of the primary government at June 30, 2013 totaled \$520.2 million as follows: university projects \$115.6 million, psychiatric hospitals \$83.3 million, correctional facilities \$2.4 million, guaranteed energy savings contracts \$314.4 million, and State and other projects \$4.5 million. At June 30, 2013, the State had no authorized but unissued general obligation bonds.

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

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

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

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

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

*General Revenue, Series 2001B and 2001C*

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

The University entered into line of credit agreements in the amount of \$200 million with Wells Fargo Bank, N.A. (“the Bank”) and \$200 million with J.P. Morgan Chase, N.A. (“the Bank”) on September 21, 2011. Under each line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on Variable Rate Demand Bonds (or Commercial Paper Bonds) delivered for purchase. Under each line of credit agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each line of credit in the amount of 0.38% per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor’s (S&P), Fitch Ratings (Fitch) or Moody’s Investors Service (Moody’s) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency’s ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

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

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

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

Each line of credit agreement expires on September 21, 2014 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University’s long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody’s. At June 30, 2013, no purchase drawings had been made under the line of credit.

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**NOTES TO THE FINANCIAL STATEMENTS***General Revenue, Series 2012D*

On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase 2 - Carolina Student Athlete Center for Excellence". The 2012D Bond was issued in the amount of \$41 million and matures on August 18, 2016 (the "maturity date").

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

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

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any Business Day on or after 90 days prior written notice to the University and the Trustee.

The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any Business Day on or after 90 days prior written notice to the Owner and the Trustee.

When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

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

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

*North Carolina Central University*

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

*Revenue Bonds Series, 2003A*

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

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has an Irrevocable Letter of Credit (LOC) for \$21.82 million. The LOC is to secure the payment of the principal and purchase price of interest on the Series 2003 Bonds. The LOC is with Wells Fargo Bank, N.A. and may be extended by request from the Foundation by delivering a notice of extension to the Trustee with a new expiration date. The LOC was subsequently extended until August 31, 2013. At June 30, 2013, the LOC rate for the bonds was 1.2% and no amounts were drawn on it.

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**NOTES TO THE FINANCIAL STATEMENTS**

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

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

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has a remarketing fee. The remarketing fee is an upfront charge to reset the interest rates on a weekly basis. The Remarketing Agent is Wells Fargo Bank, N.A. for the Series 2003A Bonds. At June 30, 2013, the remarketed rate for the bonds was 0.06%.

*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, 2013, 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 \$43.01 million of demand bonds was "put" and not resold, the University would be required to pay \$15 million a year for three years under this agreement assuming a 3.25% interest rate.

*General Revenue Bonds, Series 2008A*

On July 10, 2008 the University issued tax-exempt variable rate revenue demand bonds in the amount of \$66.61 million that have a final maturity date of October 1, 2028. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2014. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2008A bonds.

**NOTES TO THE FINANCIAL STATEMENTS**

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, 2013, there were no Bank Bonds held by the Liquidity Facility. The initial Liquidity Facility expiration date is July 6, 2015, unless otherwise extended based on the terms of the Agreement.

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

*University of North Carolina Hospitals at Chapel Hill*

With regard to the following demand bonds, the Hospitals has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt, with the exception of Series 2009A Revenue Refunding bonds, for which the University of North Carolina Hospitals acts as its own liquidity facility.

*Revenue Bonds, Series 2001A and Series 2001B*

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

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. The Hospitals' Remarketing Agents, Merrill Lynch; Pierce, Fenner & Smith Inc. (Series 2001A); and Banc of America Securities, LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thüringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the fiscal year, the percentage was 0.58% with the long-term agreement amended in 2011. This long-term agreement was renegotiated in July 2013 with a decrease in liquidity fee to 0.35% effective October 11, 2013 through December 31, 2015.

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 60<sup>th</sup> 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 61<sup>st</sup> 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;

**NOTES TO THE FINANCIAL STATEMENTS**

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, 2013, 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 \$95.2 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$24.77 million, \$23.87 million, \$22.54 million, \$21.21 million, and \$19.87 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a base rate of 4.25% (prime rate plus 1%) for the first 60 days and a maximum rate of 7% thereafter.

The current expiration date of the Agreements is December 31, 2015. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider.

*Revenue Refunding Bonds, Series 2003A and Series 2003B*

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

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

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

The 2003A Agreement with Bank of America, N.A. required a commitment fee of 0.51% for fiscal year 2013. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter until July 1, 2013. This long-term agreement was renegotiated in June 2013 with a decrease in liquidity fee to 0.36% effective July 1, 2013 through July 1, 2014. The commitment rate remains in effect over the life of the Agreement so long as the rating assigned to parity debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to parity debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the commitment rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

<u>S&amp;P</u>	<u>Moody's</u>	<u>Commitment Rate</u>
A	A2	0.71%
A- or lower	A3 or lower	0.91%

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, 2013, 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

**NOTES TO THE FINANCIAL STATEMENTS**

semiannual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding \$60.43 million of demand bonds was “put” and not resold, the Hospitals would be required to pay \$22.97 million, \$22.17 million, and \$21.01 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 4.75% (Prime plus 1.5%).

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.5% for fiscal year 2013. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November thereafter until July 31, 2013. This long-term agreement was renegotiated in June 2013 with a decrease in liquidity fee to 0.35% effective August 1, 2013 through July 31, 2014. The commitment fee remains in effect over the life of the Agreement so long as the rating assigned to parity debt by S&P and Moody’s is A+/A1 or higher. If the rating assigned to parity debt by either S&P or Moody’s is downgraded below A+ or A1, respectively, the adjusted commitment rate (lowest rating to be used) assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

<u>S&amp;P</u>	<u>Moody’s</u>	<u>Commitment Rate</u>
A	A2	0.65%
A-	A3	0.8%
BBB+	Baa1	1%
BBB	Baa2	1.25%
BBB-	Baa3	1.55%
Below Investment Grade	Below Investment Grade	2.55%

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, 2013, 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 \$32.48 million of demand bonds was “put” and not resold, the Hospitals would be required to pay \$10.9 million, \$13.7 million, and \$12.56 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.

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a business day not less than seven days before the purchase date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S. Bank, N.A., no later than noon on such purchase date. The Hospitals’ Remarketing Agent, Banc of America Securities, LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.09% of the weighted average daily principal amount of Series 2009A bonds outstanding during such periods in which the Series 2009A bonds are variable rate bonds.

Under a separate liquidity agreement with the Trustee, UNC Hospitals has established itself as Liquidity Facility for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. Upon receipt of any notice from the Remarketing Agent that there is a projected funding amount on the business day prior to each purchase date or mandatory purchase date, and upon receipt of written demand for payment from the Tender Agent by noon on each purchase date or mandatory purchase date, UNC Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the actual funding amount, which shall be equal to the purchase price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the purchase date

**NOTES TO THE FINANCIAL STATEMENTS**

or mandatory purchase date. The Hospitals is its own liquidity provider for the Series 2009A bonds. As a result, there is no established arm's-length agreement with an unrelated third party to convert the bonds "put" but not resold into a form of long-term obligation. Therefore, the Series 2009A bonds are classified as current liabilities.

**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, 2013 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

**Primary Government**

Fiscal Year Ending June 30	Governmental Activities					
	General Obligation Bonds		Certificates of Participation		Lease-Purchase Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 364,935	\$ 193,559	\$ 49,630	\$ 24,653	\$ 10,000	\$ 746
2015	372,500	170,022	42,390	22,262	2,125	461
2016	372,730	151,697	37,350	20,152	2,000	361
2017	370,600	132,654	27,415	18,285	650	298
2018	381,785	116,113	27,935	16,914	500	277
2019-2023	1,520,280	331,554	148,635	63,267	—	1,339
2024-2028	567,980	68,399	175,145	20,428	5,640	264
2029-2033	48,770	3,658	—	—	—	—
Total	<u>\$ 3,999,580</u>	<u>\$ 1,167,656</u>	<u>\$ 508,500</u>	<u>\$ 185,961</u>	<u>\$ 20,915</u>	<u>\$ 3,746</u>

Fiscal Year Ending June 30	Governmental Activities					
	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 61,225	\$ 93,424	\$ 59,545	\$ 21,007	\$ 5,809	\$ 526
2015	79,660	90,218	62,040	18,510	5,973	1,639
2016	88,400	86,372	64,780	15,771	6,482	717
2017	103,425	81,876	67,605	12,944	3,899	593
2018	107,345	76,745	70,805	9,747	4,119	462
2019-2023	650,855	294,784	130,045	10,798	6,393	1,268
2024-2028	556,655	149,924	—	—	6,637	400
2029-2033	346,175	32,858	—	—	—	—
Total	<u>\$ 1,993,740</u>	<u>\$ 906,201</u>	<u>\$ 454,820</u>	<u>\$ 88,777</u>	<u>\$ 39,312</u>	<u>\$ 5,605</u>

**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ending June 30	Business-type Activities					
	Revenue Bonds		GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 19,150	\$ 56,812	\$ —	\$ 5,773	\$ 197	\$ 136
2015	19,720	56,138	—	5,773	207	8,158
2016	8,200	55,555	—	5,773	212	17,547
2017	11,960	55,178	—	5,773	185	18,907
2018	16,070	54,621	—	5,773	169	18,901
2019-2023	133,790	258,000	145,535	22,790	2,706	94,240
2024-2028	209,425	215,545	—	—	12,598	95,509
2029-2033	275,886	176,537	—	—	46,784	95,194
2034-2038	239,072	213,192	—	—	93,988	87,368
2039-2043	125,185	11,094	—	—	220,420	72,356
Total	<u>\$ 1,058,458</u>	<u>\$ 1,152,672</u>	<u>\$ 145,535</u>	<u>\$ 51,655</u>	<u>\$ 377,466</u>	<u>\$ 508,316</u>

**Component Unit**

Fiscal Year Ending June 30	University of North Carolina System						
	Revenue Bonds		Interest Rate Swaps, Net	Certificates of Participation		Notes Payable	
	Principal	Interest		Principal	Interest	Principal	Interest
2014	\$ 115,115	\$ 142,576	\$ 17,600	\$ 5,690	\$ 10,769	\$ 14,014	\$ 9,722
2015	116,264	138,538	17,310	4,145	10,504	29,059	9,865
2016	132,703	134,884	14,718	4,695	10,336	12,402	8,854
2017	194,387	130,608	12,542	5,035	10,144	68,896	8,050
2018	170,968	126,512	9,451	5,545	9,946	21,546	8,039
2019-2023	735,496	569,794	28,513	36,960	45,483	108,766	25,593
2024-2028	692,326	456,598	9,135	48,485	35,761	52,370	7,156
2029-2033	737,262	313,629	280	60,575	23,001	6,781	298
2034-2038	694,685	118,352	—	54,735	8,004	—	—
2039-2043	189,420	20,630	—	2,845	142	—	—
Total	<u>\$ 3,778,626</u>	<u>\$ 2,152,121</u>	<u>\$ 109,549</u>	<u>\$ 228,710</u>	<u>\$ 164,090</u>	<u>\$ 313,834</u>	<u>\$ 77,577</u>

For revenue bonds of the University of North Carolina System, the fiscal year 2014 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

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

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

**Primary Government**

On February 20, 2013 the State of North Carolina sold \$319.26 million of tax-exempt General Obligation Refunding Bonds, Series 2013B. The bonds were dated February 20, 2013 and will bear interest from that date. Interest on the bonds will be payable semiannually on June 1 and December 1 commencing June 1, 2013. The bonds will mature from June 2013 through June 2025 and were issued at coupon rates ranging from 3% to 5%. The bonds are not subject to redemption prior to maturity. The State issued the refunding bonds for the purpose of achieving debt service savings through the refunding of certain maturities of the State's Highway General Obligation Bonds, Series 2003; Public Improvement General Obligation Bonds, Series 2003A; Public Improvement General Obligation Bonds, Series 2003B; Highway General Obligation Bonds, Series 2004; Public Improvement General Obligation Bonds, Series 2004A; Public Improvement General Obligation Bonds, Series 2005A; Higher Education Bonds, Series 2006A; and the Public Improvement General Obligation Bonds, Series 2007A and to pay certain costs incurred in connection with the execution and delivery of the bonds. The combined total of the bonds refunded was \$370.1 million with an average coupon interest rate of 4.32%. The refunding bonds carry a true interest cost of 1.84%. 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 will be removed from the statement of net position. The refunding reduced debt service payments by \$45.4 million over the next 12 years and resulted in an economic gain of \$44.7 million. At June 30, 2013, the outstanding balance for the defeased bonds was \$286.8 million.

On February 28, 2013 the State of North Carolina issued approximately \$352 million of tax-exempt General Obligation Refunding Bonds, Series 2013C. The bonds were dated February 28, 2013 and will bear interest from that date. Interest on the bonds will be payable semiannually on May 1 and November 1 commencing November 1, 2013. The bonds will mature from May 2015 through May 2026 and were issued at coupon rates ranging from 3.5% to 5%. The bonds are not subject to redemption prior to maturity. The State issued the current refunding bonds for the purpose of achieving debt service savings through the refunding of certain maturities of the State's Public Improvement General Obligation Bonds, Series 2003A (\$171 million) and Public Improvement General Obligation Bonds, Series 2003B (\$169.96 million), to provide for the termination payments on the State's 2005 basis swaps and swaptions which were associated with the Series 2003A and Series 2003B bonds, and to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds carry a true interest cost of 1.73%. The Series 2013C refunding reduced total debt service payments by approximately \$1.9 million over the next 13 years and resulted in an economic gain of approximately \$2.7 million.

On February 28, 2013 the State of North Carolina issued approximately \$350 million of tax-exempt General Obligation Refunding Bonds, Series 2013D. The bonds were dated February 28, 2013 and will bear interest from that date. Interest on the bonds will be payable semiannually on June 1 and December 1 commencing December 1, 2013. The bonds will mature from June 2015 through June 2023 and were issued at coupon rates ranging from 3% to 4%. The bonds are not subject to redemption prior to maturity. The State issued the refunding bonds for the purpose of achieving debt service savings through the refunding of certain maturities of the State's Public Improvement General Obligation Bonds, Series 2004A (\$335 million), to provide for the termination payments on the State's 2005 basis swaps and swaptions which were associated with the Series 2004A bonds, and to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds carry a true interest cost of 1.64%. 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 will be removed from the statement of net position. The Series 2013D refunding reduced total debt service payments by approximately \$3.3 million over the next 10 years and resulted in an economic gain of approximately \$4.7 million. At June 30, 2013, the balance of the defeased bonds was \$335 million.

The net payments of \$124.91 million to terminate the State's 2005 basis swaps and swaptions associated with refunding the Series 2003A, Series 2003B, and Series 2004A General Obligation Bonds were included with interest and fees expenditures in the General Fund. The termination payments were made to three counterparties using bond proceeds, which included a bond premium.

On March 21, 2013 the State of North Carolina sold approximately \$299.8 million of tax-exempt General Obligation Refunding Bonds, Series 2013E. The bonds were dated March 21, 2013 and will bear interest from that date. Interest on the bonds will be payable semiannually on May 1 and November 1 commencing May 1, 2013. The bonds will mature from May 2013 through May 2021 and were issued at coupon rates ranging from 2% to 5%. The bonds are not subject to redemption prior to maturity. The State issued the Series 2013E current refunding bonds for the purpose of replacing existing variable rate bonds with fixed rate bonds which will help protect against future rising interest rates. The proceeds of the Series 2013E refunding bonds were used to refund the following variable rate bonds: State of North Carolina General Obligation Public Improvement Bonds, Series 2002D (\$88.75 million), General Obligation

**NOTES TO THE FINANCIAL STATEMENTS**

Public Improvement Bonds, Series 2002E (\$88.75 million), General Obligation Public Improvement Bonds, Series 2002F (\$88.75 million) and General Obligation Public Improvement Bonds, Series 2002G (\$88.75 million) and to pay certain costs incurred in connection with the execution and delivery of the bonds. The refunded variable rate bonds were redeemed in full on March 22, 2013. The combined total of the bonds refunded was \$355 million with an average historical variable interest rate of 1.41%. The refunding bonds carry a true interest cost of 1.18%. Given the historically low fixed interest rates at the time of refunding, the State anticipates future interest saving from a fixed rate structure, and the savings (based on the average historical variable interest rates realized on the refunded bonds) are estimated to reduce debt service payments by \$7.5 million over the next 8 years, resulting in an estimated economic gain of \$7 million.

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

On July 10, 2012, the University issued The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2012C refunding bonds with an average interest rate of 2.62%, for the portion of funds used to refund the Series 2001A bonds. The bonds were issued for a current refunding of \$32.68 million of outstanding The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2001A bonds with an average interest rate of 5.01%. The refunding was undertaken to reduce total debt service payments by \$8.18 million over the next 14 years and resulted in an economic gain of \$6.71 million.

On July 10, 2012, the University issued The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2012C refunding bonds with an average interest rate of 3.09% for the portion of funds used to refund the Series 2003 bonds. The bonds were issued to advance refund \$87.32 million of outstanding The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2003 bonds with an average interest rate of 4.97%. 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 University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$15.68 million over the next 22 years and resulted in an economic gain of \$11.77 million. On June 30, 2013, the outstanding balance was \$87.32 million for the defeased The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2003 bonds.

*North Carolina State University*

On February 13, 2013 the University issued \$132.44 million in North Carolina State University at Raleigh General Revenue Bonds, Series 2013A and \$141.65 million in North Carolina State University Taxable General Revenue Bonds, Series 2013B bonds with an average coupon of 4.21%. The bonds were issued to advance refund \$47.47 million of outstanding North Carolina State University General Revenue Bonds, Series 2005A bonds with an average coupon of 4.83%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$4.83 million over the next 13 years and resulted in an economic loss of \$3.63 million. At June 30, 2013, the outstanding balance was \$47.47 million for the defeased North Carolina State University General Revenue Bonds, Series 2005A bonds.

*University of North Carolina at Greensboro*

On July 12, 2012, the University issued \$13.35 million in General Revenue and Refunding Bonds with an average interest rate of 4.38%. The bonds were issued to advance refund \$13.59 million of outstanding 2004C University of North Carolina System Pool Revenue Bonds with an average interest rate of 4.96%. The net proceeds of the refunding bonds (along with other resources) were used to purchase securities from a federally sponsored pool. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$1.51 million over the next 17 years and resulted in an economic gain of \$1.18 million. At June 30, 2013, the outstanding balance was \$13.59 million for the defeased 2004C University of North Carolina System Pool Revenue Bonds.

*East Carolina University*

On February 7, 2013, the University issued \$10.91 million in General Revenue Refunding Series 2013A bonds with an average interest rate of 2.97%. The bonds were issued to advance refund \$10.34 million of outstanding UNC System Pool Series 2004C bonds with an average interest rate of 4.69%. The net proceeds of the refunding bonds along with additional funds in the amount of \$170 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 has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$2.57 million over the next 21 years and resulted in an economic gain of \$1.96 million. At June 30, 2013, the outstanding balance was \$10.34 million for the defeased UNC System Pool Series 2004C bonds.

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**NOTES TO THE FINANCIAL STATEMENTS****Prior Year Defeasances**

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net position. At June 30, 2013, the outstanding balance of prior year defeased bonds was \$840.47 million for the primary government and \$49.18 million for the University of North Carolina System (component unit).

**G. Federal Unemployment Account Advances**

During fiscal year 2013, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of \$1.06 billion to continue financing the operating deficit in the State's unemployment compensation fund. Proceeds from the advances were used to pay state unemployment benefits. The total amount collected from unemployment tax contributions and additional federal unemployment taxes used to pay down the principal on the repayable advances was \$1.47 billion. At year-end, the outstanding balance of the FUA advances was \$2.155 billion. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. Currently, the repayable advances are payable from the unemployment tax contributions and additional federal unemployment taxes imposed on the State's employers for calendar year 2012. Both will be used specifically for paying down the debt until it is settled. Meanwhile, the State unemployment benefits will continue to be paid from the repayable advances.

**H. Pollution Remediation Payable****Primary Government****Governmental Activities**

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environment and Natural Resources assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 24 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 following two properties, the North Carolina Maritime Museum Harborside Property (Harborside Property) and the Tryon Palace Boatworks Site (Boatworks Site). As a result of a U.S. Environmental Protection Agency Superfund assessment, the Harborside Property has been placed under the jurisdiction of the Inactive Hazardous Sites Branch of the N.C. Department of Environment and Natural Resources (DENR). 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 \$6.277 million, of which \$5.405 million was for leaking underground fuel tanks at DOT and \$872 thousand was for the two polluted sites 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 \$10 thousand for underground storage tank removals at a campus building. The amount of the liability was calculated from the estimated costs of the removal.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 9: LEASE OBLIGATIONS—OPERATING AND CAPITAL**

The State and its component units have entered into various operating and capital leases for office space and for communications, computer, and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when incurred. For the year ended June 30, 2013, total operating lease expenditures were \$75.51 million for Primary Government, \$61.65 million for the University of North Carolina System, and \$8.02 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, 2013 are as follows (dollars in thousands):

Fiscal Year	Operating Leases				Capital Leases		
	Primary Government		Component Units		Primary Government	Component Units	
	Governmental Activities	Business-type Activities	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2014	\$ 41,484	\$ 2,112	\$ 50,012	\$ 5,130	\$ 2,208	\$ 9,371	\$ 3,223
2015	32,168	1,966	43,139	3,811	2,141	8,184	3,075
2016	26,510	1,401	34,112	3,064	2,126	5,771	2,870
2017	22,126	410	29,093	2,067	1,961	4,008	2,844
2018	12,137	261	25,484	1,774	1,924	3,415	4,983
2019 - 2023	16,712	429	84,401	5,635	9,679	11,168	12,596
2024 - 2028	8,082	—	46,545	2,196	3,745	1,172	11,001
2029 - 2033	8,082	—	3,639	599	—	708	4,217
2034 - 2038	8,082	—	61	113	—	6,678	—
2039 - 2043	8,082	—	14	—	—	—	—
2044 - 2048	8,082	—	—	—	—	—	—
2049 - Beyond	6,465	—	—	—	—	—	—
<b>Total Future Minimum Lease Payments.</b>	<b>\$ 198,012</b>	<b>\$ 6,579</b>	<b>\$ 316,500</b>	<b>\$ 24,389</b>	<b>23,784</b>	<b>50,475</b>	<b>44,809</b>
Less: Amounts Representing Interest					(4,409)	(4,241)	(16,862)
<b>Present Value of Future Minimum Lease Payments</b>					<b>\$ 19,375</b>	<b>\$ 46,234</b>	<b>\$ 27,947</b>

At June 30, 2013, 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	\$ 13,537	\$ 31,368
Machinery and Equipment...	1,710	49,255	318
Other.....	—	1,791	—
<b>Total Capital Assets.....</b>	<b>\$ 27,111</b>	<b>\$ 64,583</b>	<b>\$ 31,686</b>

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

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

The General Fund balance of \$86.38 million due to fiduciary funds is composed of \$29.51 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as \$56.87 million related to retirement contributions payable to retirement systems at year end.

The Highway Fund balance of \$12.21 million and the NC Turnpike Authority balance of \$1.86 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, 2013, consisted of the following (dollars in thousands):

	<b>Due From Other Funds</b>					Total
	General Fund	Highway Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	
<b>Due To Other Funds</b>						
General Fund.....	\$ —	\$ —	\$ 5,849	\$ 8,255	\$ 12,757	\$ 26,861
Highway Fund.....	—	—	1,150	—	3,455	4,605
Highway Trust Fund.....	—	8,038	—	—	—	8,038
Other Governmental Funds.....	61	—	25	—	272	358
Unemployment Compensation Fund.....	954	—	—	—	—	954
EPA Revolving Loan Fund.....	—	—	—	—	32	32
NC State Lottery Fund.....	27,253	—	—	—	64	27,317
NC Turnpike Authority.....	—	74	—	—	2	76
Other Enterprise Funds.....	—	—	1	—	72	73
Internal Service Funds.....	1	—	—	—	1,082	1,083
<b>Total.....</b>	<b>\$ 28,269</b>	<b>\$ 8,112</b>	<b>\$ 7,025</b>	<b>\$ 8,255</b>	<b>\$ 17,736</b>	<b>\$ 69,397</b>

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 \$23.61 million to the North Carolina Turnpike Authority from the Highway Trust Fund is related to startup operating costs.

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

Transfers in/out of other funds for the fiscal year ended June 30, 2013 consisted of the following (dollars in thousands):

	Transfers In						Total
	General Fund	Highway Fund	Other Governmental Funds	NC Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	
<b>Transfers Out</b>							
General Fund.....	\$ —	\$ —	\$ 94,486	\$ —	\$ 3,683	\$ 1,259	\$ 99,428
Highway Fund.....	268,745	—	602	—	—	—	269,347
Highway Trust Fund.....	27,907	45,270	—	56,246	—	—	129,423
Other Governmental Funds.....	128,905	14,364	5,360	—	4,346	22	152,997
Unemployment Compensation Fund.....	22,598	—	—	—	—	—	22,598
EPA Revolving Loan Fund.....	1,582	—	—	—	—	—	1,582
NC State Lottery Fund.....	478,509	—	1,000	—	—	—	479,509
NC Turnpike Authority .....	—	3,571	—	—	—	—	3,571
Other Enterprise Funds.....	832	—	4,916	—	2	—	5,750
Internal Service Funds.....	14,057	—	—	—	—	4,739	18,796
<b>Total.....</b>	<b>\$ 943,135</b>	<b>\$ 63,205</b>	<b>\$ 106,364</b>	<b>\$ 56,246</b>	<b>\$ 8,031</b>	<b>\$ 6,020</b>	<b>\$ 1,183,001</b>

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.

When the Highway Trust Fund was created in 1989, the revenue from the sales tax on motor vehicles was transferred from the General Fund to the Highway Trust Fund. To offset a portion of this revenue loss in the General Fund, the Highway Trust Fund is required to transfer funds to the General Fund each year. The total transfer for this fiscal year was \$27.6 million.

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. It eliminates the transfer of funds for the Mid-Currituck Bridge and Garden Parkway. Debt has been issued for the Triangle Expressway and the Monroe Connector/Bypass, and \$49 million was transferred to the NCTA during fiscal year 2013.

The Unemployment Compensation Fund is reported as an enterprise fund; however the administrative costs related to this program are reported in the General Fund. Funds are transferred from the Unemployment Compensation Fund to the General Fund for the support and operation of the local Employment Security offices. The total transfer during this fiscal year was \$19.5 million.

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 \$478.51 million, as set forth in General Statute 18C-164.

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

**Fund Balance.** The details of the fund balance classifications for governmental funds at June 30, 2013 are as follows (dollars in thousands):

Fund Balance	Governmental Funds				
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>					
Inventories.....	\$ 75,153	\$ 89,484	\$ —	\$ 29,398	\$ 194,035
Permanent Corpus.....	—	—	—	91,425	91,425
<b>Restricted for:</b>					
General government.....	4,120	—	—	124,432	128,552
Primary and secondary education.....	9,000	—	—	—	9,000
Higher education.....	4,179	—	—	520,691	524,870
Health and human services.....	15,250	—	—	75,485	90,735
Economic development.....	37,357	—	—	19,660	57,017
Environment and natural resources.....	23,487	—	—	28,754	52,241
Public safety, corrections, and regulation.....	37,018	—	—	50,909	87,927
Transportation.....	—	43,387	—	—	43,387
<b>Committed to:</b>					
General government.....	186,743	—	—	103,193	289,936
Primary and secondary education.....	299,612	—	—	—	299,612
Higher education.....	34,995	—	—	195	35,190
Health and human services.....	28,765	—	—	15,368	44,133
Economic development.....	51,344	—	—	108	51,452
Environment and natural resources.....	77,867	—	—	326,789	404,656
Public safety, corrections, and regulation.....	38,313	—	—	142,798	181,111
Transportation.....	—	199,589	620,753	2,028	822,370
Agriculture.....	5,369	—	—	24,312	29,681
Repairs and renovations.....	161,585	—	—	—	161,585
<b>Assigned to:</b>					
Subsequent year's budget.....	27,285	—	—	—	27,285
General government.....	2,282	—	—	6	2,288
Higher education.....	1,157	—	—	—	1,157
Health and human services.....	135	—	—	—	135
Public safety, corrections, and regulation.....	98	—	—	772	870
Unassigned.....	158,821	—	—	—	158,821
Total fund balance.....	<u>\$ 1,279,935</u>	<u>\$ 332,460</u>	<u>\$ 620,753</u>	<u>\$ 1,556,323</u>	<u>\$ 3,789,471</u>

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 12: RETIREMENT PLANS**

The State reports 10 retirement plans as pension trust funds. Section A of this note describes the seven defined benefit public employee retirement plans and one defined contribution plan administered by the State. The remaining plans, described in Note 13, are defined contribution plans administered by a third party under the auspices of the State. The State may or may not make supplementary contributions to these plans. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information* section of this *CAFR*. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

**A. Plan Descriptions and Contribution Information****1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM**

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, Local Education Agencies (LEAs), and miscellaneous educational units 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 miscellaneous educational units. At June 30, 2013, the number of participating employers was 247 as shown below:

State of North Carolina.....	1
LEAs and miscellaneous units.....	168
Community Colleges.....	58
University of North Carolina System.....	19
Other component unit.....	1

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially based required employer contribution established by legislation. For the fiscal year ended June 30, 2013, the State made a statutory contribution of 8.33% of covered payroll. This was greater than the actuarially required contribution of 8.02%. Benefit and contribution provisions are established by General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

**2. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM**

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys, public defenders and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the fiscal year ended June 30, 2013, the State made a statutory contribution of 26.55% of covered payroll. This was equal to the actuarially required contribution. Benefit and contribution provisions are established by General Statutes 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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**NOTES TO THE FINANCIAL STATEMENTS****3. LEGISLATIVE RETIREMENT SYSTEM**

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly.

The benefit will not be payable while the retiree is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System or Consolidated Judicial Retirement System.

Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially based employer contributions. For the fiscal year ended June 30, 2013, there was no actuarially based required contribution.

Benefit and actuarially based contribution provisions are established by General Statutes 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

**OTHER STATE ADMINISTERED SYSTEMS**

The State also administers the following pension and retirement plans for persons who are not necessarily considered employees of the State or its component units.

**4. FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND**

This plan 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 firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 2013, there were 1,817 participating fire and rescue units.

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

**5. NORTH CAROLINA NATIONAL GUARD PENSION FUND**

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard. This also is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by an actuarially based state appropriation (see section D) and investment income. Benefit and contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

**6. REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND**

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is composed of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent local plan and have met the statutory eligibility requirements. At June 30, 2013, there were 91 individuals receiving benefits in the plan with all 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 register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The State Treasurer administers the plan and *Section B* of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

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 required contribution this year and in the foreseeable future is zero.

**NOTES TO THE FINANCIAL STATEMENTS**

Registers of deeds do not contribute. The actuarially required contribution and percentage of that contribution actually made is in the *Required Supplementary Information* section of this report. All benefit and contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly.

**7. SHERIFFS' SUPPLEMENTAL PENSION FUND**

This plan is a defined contribution plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2013, there were 93 sheriffs and no beneficiaries enrolled in the plan with all 100 of the State's counties eligible to participate.

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. Section B of this note describes the accounting and investing for the plan. 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, 2013, the Clerks remitted \$921 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.

**8. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities.

At June 30, 2013, the number of participating local governments was 890, as shown below:

Cities.....	427
Counties.....	100
Special Districts.....	363

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. The annual required contribution (ARC) and actual contribution for all employers was 7.22% of covered payroll for law enforcement officers and 6.74% for general employees and firemen. 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. Benefit and contribution provisions are established by General Statutes 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains.

**NOTES TO THE FINANCIAL STATEMENTS**

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

<b>Employee Groups</b>	<b>Teachers' and State Employees'</b>	<b>Consolidated Judicial</b>	<b>Legislative</b>	<b>Firemen's and Rescue Squad</b>	<b>North Carolina National Guard</b>	<b>Registers of Deeds'</b>	<b>Local Governmental</b>
Retirees and beneficiaries currently receiving benefits .....	179,908	559	283	11,912	4,282	91	54,547
Terminated employees entitled to benefits but not yet receiving them .....	117,489	48	81	154	5,032	4	47,663
Active plan members .....	319,999	564	169	40,870	5,365	99	122,270
<b>Total .....</b>	<b>617,396</b>	<b>1,171</b>	<b>533</b>	<b>52,936</b>	<b>14,679</b>	<b>194</b>	<b>224,480</b>
Date of valuation .....	12-31-12	12-31-12	12-31-12	6-30-12	12-31-12	12-31-12	12-31-12

**B. 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 made a formal commitment to provide the contributions. Benefits and refunds 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 retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios.

The investment balance of each pension trust fund represents its share of the fair 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.

**C. Actuarial Methods and Assumptions**

The latest actuarial valuations are dated December 31, 2012 (June 30, 2012, for the Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress for the past six years are presented by system in the *Required Supplementary Information* section of this report. Actuarial valuations involve estimates of reported amounts and assumptions about the probability of the occurrence of events. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

**NOTES TO THE FINANCIAL STATEMENTS**

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Cost Method</i>	<i>Amortization Method</i>	<i>Remaining Amortization Period</i>	<i>Period Open/Closed</i>	<i>Asset Valuation Method</i>	<i>Actuarial Assumptions</i>	
							<i>Investment Rate of Return</i>	<i>Projected Salary Increase</i>
<b>Teachers' and State Employees'</b>	12/31/12	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
<b>Consolidated Judicial</b>	12/31/12	Projected unit credit	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
<b>Legislative</b>	12/31/12	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
<b>Firemen's and Rescue Squad</b>	6/30/12	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor plus receivable employer contributions	7.25%	N/A
<b>North Carolina National Guard</b>	12/31/12	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
<b>Registers of Deeds'</b>	12/31/12	Entry age	Level dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
<b>Local Governmental Employees'</b>	12/31/12	Frozen entry age	Level percentage	Various	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%

N/A-Not applicable

For the fiscal year ended June 30, 2013 retirees in the Teachers' and State Employees' system, the Consolidated Judicial system and the Legislative Retirement system received a 1% cost of living adjustment. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2012. These enhancements were either reflected as liabilities in the valuations described above, or paid for with the systems' actuarial gains.

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

Within the actuarial assumptions, the projected investment returns for all systems, except the Legislative and Firemen's and Rescue Squad Workers', include a 3% inflation factor and the projected salaries for Teachers' and State Employees', Consolidated Judicial, Registers of Deeds', and Local Governmental Employees' includes a 3.5% inflation and productivity factor. The assumption for the Legislative system does not identify an inflationary factor. The assumption for the Firemen's and Rescue Squad Workers' includes a 3.5% inflationary factor. The funding status of each of the State's various plans on the date of the most recent actuarial valuation is presented in section E of this note.

**CURRENT FISCAL YEAR ASSUMPTIONS**

Unless otherwise noted in this footnote or in the required supplementary schedules, the actuarial values, methods and significant assumptions for the current year's required contributions are the same as those presented in the table shown on the prior page. The annual required contributions (ARC) for the fiscal year ended June 30, 2013, were developed from various prior year valuations. The Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial, and National Guard systems' valuations were as of December 31, 2010, the Legislative system was valued at December 31, 2011, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2011. These valuations used amortization periods of eight years for Legislative and twelve years for all the other systems. Registers of Deeds' was valued at December 31, 2010, but effectively had no liability to be amortized. The Local Governmental Employees' system is an aggregate of numerous employers, and consequently, has various amortization periods. The rate of investment return and projected salary increases used in these valuations assumed essentially the same increases as in the most current valuations reported on the prior page.

**NOTES TO THE FINANCIAL STATEMENTS****D. Annual Pension Cost and Net Pension Obligation**

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

	<b>Consolidated Judicial Retirement System</b>	<b>Legislative Retirement System</b>	<b>Firemen's and Rescue Squad Workers' Pension Fund</b>	<b>North Carolina National Guard Pension Fund</b>
Annual required contribution.....	\$ 18,502	\$ —	\$ 14,074	\$ 5,667
Interest on net pension obligation.....	29	(9)	172	(262)
Adjustment to annual required contribution.....	(55)	19	(312)	493
Annual pension cost.....	18,476	10	13,934	5,898
Less: Contributions made.....	<u>(18,502)</u>	<u>—</u>	<u>(15,447)</u>	<u>(7,007)</u>
Increase (decrease) in net pension obligation.....	(26)	10	(1,513)	(1,109)
Net pension (asset) obligation beginning of year....	401	(123)	2,365	(3,609)
Net pension (asset) obligation end of year.....	<u>\$ 375</u>	<u>\$ (113)</u>	<u>\$ 852</u>	<u>\$ (4,718)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

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

**State of North Carolina's Annual Pension Cost (APC)  
and Annual Required Contributions (ARC) as an Employer**

For the Years Ended June 30, 2011 through June 30, 2013 (dollars in thousands)

	<b>Teachers' and State Employees'</b>	<b>Consolidated Judicial</b>	<b>Legislative</b>	<b>Firemen's and Rescue Squad</b>	<b>North Carolina National Guard</b>
<b>Primary Government:</b>					
2013	\$ 276,182	\$ 18,476	\$ 10	\$ 13,934	\$ 5,898
2012	242,963	17,177	13	14,239	6,259
2011	165,721	13,330	15	12,205	5,882
<b>Component units:</b>					
<b>Universities:</b>					
2013	\$ 173,726				
2012	152,850				
2011	95,125				
<b>Community Colleges:</b>					
2013	\$ 70,660				
2012	60,670				
2011	40,001				
<b>Proprietary Funds:</b>					
2013	\$ 624				
2012	1,041				
2011	998				
<b>Total Primary Government and Component Units:</b>					
2013	\$ 521,192	\$ 18,476	\$ 10	\$ 13,934	\$ 5,898
2012	457,524	17,177	13	14,239	6,259
2011	301,845	13,330	15	12,205	5,882
<b>Percentage of APC Contributed:</b>					
2013		100%	0%	111%	119%
2012		100%	0%	101%	112%
2011		77%	0%	83%	119%
<b>Percentage of ARC Contributed:</b>					
2013	104%				
2012	100%				
2011	100%				
<b>Net Pension (Asset) Obligation:</b>					
2013		\$ 375	\$ (113)	\$ 852	\$ (4,718)
2012		401	(123)	2,365	(3,609)
2011		428	(136)	2,524	(2,861)

**NOTES TO THE FINANCIAL STATEMENTS****E. Funding Status and Funding Progress**

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

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)				
<b>Teachers' and State Employees'</b>	12-31-12	\$ 59,911,833	\$ 63,630,278	\$ 3,718,445	94.2%	\$ 12,774,187	29.1%
<b>Consolidated Judicial</b>	12-31-12	\$ 481,286	\$ 527,585	\$ 46,299	91.2%	\$ 68,237	67.9%
<b>Legislative</b>	12-31-12	\$ 29,416	\$ 23,852	\$ (5,564)	123.3%	\$ 3,510	(158.5)%
<b>Firemen's and Rescue Squad Workers'</b>	6-30-12	\$ 338,885	\$ 403,817	\$ 64,932	83.9%	N/A	N/A
<b>North Carolina National Guard</b>	12-31-12	\$ 96,597	\$ 131,722	\$ 35,125	73.3%	N/A	N/A
<b>Registers of Deeds'</b>	12-31-12	\$ 44,996	\$ 23,517	\$ (21,479)	191.3%	\$ 5,613	(382.7)%
<b>Local Governmental Employees'</b>	12-31-12	\$ 20,295,239	\$ 20,338,785	\$ 43,546	99.8%	\$ 5,123,481	0.9%

**F. Optional Retirement Plan**

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in institutions of the UNC System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2013, the Plan had 14,548 participants.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), Valic, Fidelity Investments and Lincoln National Life Insurance Company. Participants' eligibility and contributory requirements are established in General Statutes 135-5.1. Participants contribute 6% of compensation and the university contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed \$98.6 million for the fiscal year ended June 30, 2013. Annual covered payroll was \$1.4 billion and employer contributions expressed as a percentage of annual covered payroll were the required 6.84% for the period. Employee contributions expressed as a percentage of annual covered payroll were the required 6%, with actual employee contributions of \$86.5 million for the fiscal year ended June 30, 2013.

Participants are vested after five years of service, but the company must return the value of the institutions' contributions to the State if termination occurs prior to five years of service. The participant chooses his/her own investment products with the company of choice.

**G. Special Separation 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, 2013, the State and its major component units paid \$15.2 million for 921 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 13: DEFERRED COMPENSATION PLANS**

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*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. 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, 2012 are presented in this financial report as a pension and other employee benefit trust fund. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 457 Plan. The 457 Plan’s financial statements are available by contacting the N.C. Department of State Treasurer, 325 North Salisbury Street, Raleigh, NC 27603-1385.

*IRC Section 401(k) Plan* - Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) in accordance with Internal Revenue Code (IRC) Section 401(k). Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan’s Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. Subject to the employer’s election to participate in the Plan, all members of the Teachers’ and State Employees’ Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees’ Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC are eligible to enroll in the 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. Members of the 401(k) Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants.

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, 2012, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The 401(k) Plan’s financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 401(k) Plan. The 401(k) Plan’s financial statements are available by contacting the N.C. Department of State Treasurer, 325 North Salisbury Street, Raleigh, NC 27603-1385.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive \$.50 for each court cost assessed and collected under General Statute 7A-304, while \$1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2012, 49 state agencies and component units along with 452 local governmental units outside our reporting entity contributed the required 5%. In addition, five state agencies and 447 local government employers contributed to the 401(k) Plan on a voluntary basis.

The 401(k) Plan also reported total member contributions of \$279.937 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2012, amounted to \$162.6 million for the State, \$23.5 million for universities, and \$3.9 million for community colleges and other miscellaneous component units. The required 5% employer’s contribution was made by the State for \$8.1 million, by universities for \$1.2 million, and by the remaining component units and community colleges for \$194 thousand. In addition, the State contributed \$393 thousand for required court cost assessments.

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**NOTES TO THE FINANCIAL STATEMENTS**

The 401(k) Plan and 457 Plan (Supplemental Retirement Plans) disclose a related party transaction in Note 20 of this CAFR. Through an agreement with the Supplemental Plans, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The Supplemental Retirement Plans' investment risks are described in Note 3.

*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 the General Assembly to create a State sponsored 403(b) Plan entitled the North Carolina Public School Teachers' and Professional Educators' Investment Plan. While the state sponsored 403(b) Plan has not yet been implemented, it will be made available to all local school Boards of Education across the State. Each individual Board of Education will have the discretion to adopt the state sponsored 403(b) Plan.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 14: OTHER POSTEMPLOYMENT BENEFITS**

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

**A. Summary of Significant Accounting Policies and Plan Asset Matters***BASIS OF ACCOUNTING*

The financial statements of these plans are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

*INVESTMENTS / SECURITIES LENDING*

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its Investment Pool. Detailed descriptions of the methods and significant assumptions used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 3. The investment balance of the Disability Income Plan represents its share of the fair value of the net position in the Long-term Investment portfolio. The Retiree Health Benefit Fund currently does not have investments.

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), miscellaneous educational units, and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2013, the number of participating employers was as shown below:

State of North Carolina.....	1
LEAs and miscellaneous units.....	168
Community Colleges.....	58
University of North Carolina System.....	19
Other component unit.....	1
Local governments.....	16

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 are the same as for active employees as described in Note 15, except that the coverage becomes secondary when former employees become eligible for 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 (UEORP), 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

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**NOTES TO THE FINANCIAL STATEMENTS**

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 5.3% 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 the following page. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

## 2. *DISABILITY INCOME*

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2013, the State and the other employers made a statutory contribution of 0.44% of covered payroll. This was equal to the actuarially required contribution. The State's total payments are shown in the following table. 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 required by GASB 45. For the Retiree Health Benefit Plan, the contractually required contribution is determined by the General Assembly and does not reflect the actuary-based ARC. For the Disability Income Plan, the ARC equals the State's OPEB cost as an employer.

**State of North Carolina's Required Contributions as an Employer**  
**For the Years Ended June 30, 2011 through June 30, 2013**  
*(dollars in thousands)*

	Retiree Health Benefit	Disability Income
Primary Government:		
2013	\$ 175,722	\$ 14,588
2012	163,282	16,981
2011	164,713	17,480
Component units:		
Universities:		
2013	\$ 189,556	\$ 15,737
2012	172,664	17,957
2011	159,564	16,933
Community Colleges:		
2013	\$ 44,958	\$ 3,732
2012	40,773	4,240
2011	39,757	4,219
Proprietary Funds:		
2013	\$ 397	\$ 33
2012	700	73
2011	992	105
Total Primary Government and Component Units:		
2013	\$ 410,633	\$ 34,090
2012	377,419	39,251
2011	365,026	38,737
Percentage Contributed:		
2013	100%	100%
2012	100%	100%
2011	100%	100%

**NOTES TO THE FINANCIAL STATEMENTS**

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

<b>Employee Groups</b>	<b>Retiree Health Benefit</b>	<b>Disability Income</b>
Retirees and beneficiaries currently receiving benefits .....	185,381	n/a
Disabled members receiving long term disability benefits .....	n/a	6,884
Terminated employees entitled to benefits but not yet receiving them .....	32,511	-
Active plan members .....	<u>342,733</u>	<u>326,594</u>
Total .....	<u>560,625</u>	<u>333,478</u>
 Date of valuation .....	 12/31/12	 12/31/12

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

	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c) (3)</b>	<b>UAAL as a Percentage of Covered Payroll ([b-a]/c)</b>
<b>Retiree Health (1)</b>	12/31/12	\$ 765,828	\$ 23,883,107	\$ 23,117,279	3.2%	\$ 14,957,179	154.6%
<b>Disability Income (2)</b>	12/31/12	\$ 432,667	\$ 503,192	\$ 70,525	86.0%	\$ 14,163,204	0.5%

(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.

**NOTES TO THE FINANCIAL STATEMENTS****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, 2012. The latest actuarial valuation for DIPNC is dated December 31, 2012. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

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

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

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

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

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

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

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

N/A Not Applicable

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

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 89 out of 115 LEAs and 30 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):

	<b>Fiscal Year</b>	
	<b>2013</b>	<b>2012</b>
Unpaid claims at beginning of year .....	\$ 23,895	\$ 15,039
<b>Incurred claims:</b>		
Provision for insured events		
of the current year .....	6,386	19,304
Increases (decreases) in provision		
for insured events of prior years .....	(5,471)	4,250
Total incurred claims .....	<u>915</u>	<u>23,554</u>
<b>Payments:</b>		
Claims attributable to insured		
events of the current year .....	1,975	6,992
Claims attributable to insured		
events of the prior years .....	14,875	7,706
Total payments .....	<u>16,850</u>	<u>14,698</u>
Total unpaid claims at end		
of the year .....	<u>\$ 7,960</u>	<u>\$ 23,895</u>

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is \$45.5 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of \$15 million apply separately with respect to flood and earthquake. Coverage applies to "all risk" perils. Boiler and machinery coverage is provided under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies.

**NOTES TO THE FINANCIAL STATEMENTS****B. Employee Benefit Plans****1. State Health Plan**

In accordance with Chapter 135, Article 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. This care is also 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.

Coverage is self-funded by contributions to the Plan, which is reported as a major component unit. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Employees and retirees also contribute to the cost of coverage for the 80/20 Standard Preferred Provider Organization (PPO) plan option. 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
2011-12	\$ 224,217	\$ 2,506,642	\$ (2,486,799)	\$ 244,060
2012-13	244,060	2,491,957	(2,490,686)	245,331

**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, 2012 to June 30, 2013, 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 2012 to June 2013.

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
2011-12	\$ 4,386	\$ 44,566	\$ (45,419)	\$ 3,533
2012-13	3,533	45,620	(45,671)	3,482

**NOTES TO THE FINANCIAL STATEMENTS****3. Disability Income Plan of North Carolina**

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day succeeding at least 365 calendar days after service as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. The Board of Trustees may extend the short-term disability benefits of a beneficiary beyond the benefit period of 365 days for an additional period of not more than 365 days; provided the Medical Board determines that the beneficiary's disability is temporary and likely to end within the extended period of short-term disability benefits. During the extended period of short-term disability benefits, payment of benefits shall be made by the Plan directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

**C. Other Risk Management and Insurance Activities****1. Automobile, Fire and Other Property Losses**

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first \$1 million of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$1 million up to \$10 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

Agencies of the State and participating component units using state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred. The private insurer processes all claims and sets up a reserve for amounts expected to be paid for claims. Claims are paid by the private insurer after they are approved by the Attorney General's Office. Settled claims have not exceeded coverage in any of the past three fiscal years.

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums. The Fund insures losses up to \$2.5 million per occurrence. All losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, in excess of \$50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach \$5 million in any one annual period, the Fund's retention for the remainder of the annual period is \$100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

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
2011-12	\$ 1,484	\$ 2,351	\$ (2,282)	\$ 1,553
2012-13	1,553	372	(806)	1,119

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**NOTES TO THE FINANCIAL STATEMENTS****2. Medical Malpractice Protection****a. Professional Liability Insurance for State Medical Personnel**

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

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

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Public Safety to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of \$1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Public Safety purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

Insurance coverage varies depending upon the amount of coverage and the type of policy. Typically the amount of primary coverage for medical liability is \$1 million per individual, claim, or incidence, and \$3 million total or aggregate. Some departments and institutions have purchased higher limits to provide additional coverage above that provided by the primary policy for medical liability. The policies are written on a claims made or occurrence basis, with the majority of the policies being claims made. The claims liabilities are not measurable.

**b. Self-Insurance through the Liability Insurance Trust Fund**

The Liability Insurance Trust Fund (Trust Fund) is an unincorporated entity created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill (the Hospitals) and the University of North Carolina at Chapel Hill Faculty Physicians (UNCFP). The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

For the periods ending June 30, 2012 and June 30, 2013, 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, 2012 and June 30, 2013, 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, 2013, 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 \$48.885 million and \$44.282 million are the present values of the aggregate actuarially determined claims liabilities of \$45.901 million and \$40.656 million, discounted at 1% at June 30, 2012 and 0.5% at June 30, 2013.

**NOTES TO THE FINANCIAL STATEMENTS**

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
2011-12	\$ 51,367	\$ 635	\$ (3,117)	\$ 48,885
2012-13	48,885	5,482	(10,085)	44,282

**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 Workers' Compensation Program (the Program) was created by Chapter 97, Article 1, of the General Statutes to provide benefits to workers injured on the job. All employees of the State and its component units are included in the Program. 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. 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.

**NOTES TO THE FINANCIAL STATEMENTS**

Each state agency and participating component unit is billed for claims and an administrative fee which is paid by the fund to the third party administrator. This fund is reported as an internal service fund in this report. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. Since the related liability is not measurable, claim costs are recognized when paid. For the year ended June 30, 2013, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government .....	\$ 122,455
University of North Carolina System .....	12,026
All other component units .....	<u>60</u>
Total .....	<u>\$ 134,541</u>

**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 Statewide Workers' Compensation Program (the Program) 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 appropriations made to the Department for this purpose 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. The appropriation for the fiscal year ended June 30, 2013 was \$2.6 million. As of June 30, 2013, the Fund consisted of 1,135 eligible units representing approximately 42,715 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 Program considers anticipated investment income in determining if a premium deficiency exists. The Program recognizes subrogation from third parties as a reduction to claim and claim settlement expenses incurred. As of June 30, 2013, 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 Program maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Program's retention of \$500,000 per occurrence and a \$1.5 million limit for employer's liability above the Program's retention of \$500,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 2013, there are claims recoverable from reinsurers in the amount of \$22 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
2011-12	\$ 18,113	\$ 9,930	\$ (9,052)	\$ 18,991
2012-13	18,991	10,665	(11,075)	18,581

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 16: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2013 are presented below.

**COMBINING STATEMENT OF PLAN NET POSITION**

June 30, 2013

*(Dollars in Thousands)*

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
<b>Assets</b>						
Cash and cash equivalents.....	\$ 119,924	\$ 960	\$ 74	\$ 3,687	\$ 1,889	\$ 44,960
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts....	—	—	—	—	—	—
State Treasurer investment pool.....	58,305,288	471,172	28,078	341,390	93,820	20,034,359
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	1,933,979	15,607	939	11,578	3,240	662,416
Receivables:						
Accounts receivable.....	2,851	7	—	35	9	3,354
Interest receivable.....	102	1	—	2	1	27
Contributions receivable.....	52,285	—	21	—	—	41,444
Due from other funds.....	38,727	1,887	—	—	—	—
Due from component units.....	3,772	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	<u>60,456,928</u>	<u>489,634</u>	<u>29,112</u>	<u>356,692</u>	<u>98,959</u>	<u>20,786,560</u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	8,818	73	13	156	3	548
Obligations under securities lending.....	1,956,390	15,806	943	11,724	3,301	673,050
Total Liabilities.....	<u>1,965,208</u>	<u>15,879</u>	<u>956</u>	<u>11,880</u>	<u>3,304</u>	<u>673,598</u>
<b>Net Position</b>						
Held in trust for:						
Employees' pension and other benefits.....	58,491,720	473,755	28,156	344,812	95,655	20,112,962
Total Net Position.....	<u>\$ 58,491,720</u>	<u>\$ 473,755</u>	<u>\$ 28,156</u>	<u>\$ 344,812</u>	<u>\$ 95,655</u>	<u>\$ 20,112,962</u>

**NOTES TO THE FINANCIAL STATEMENTS**

<b>401(k) Supplemental Retirement Income Plan</b>	<b>Deferred Compensation Plan</b>	<b>Death Benefit Plan of N.C.</b>	<b>Retiree Health Benefit Fund</b>	<b>Disability Income Plan of N.C.</b>	<b>Sheriffs' Pension Fund</b>	<b>Register of Deeds' Supplemental Pension Fund</b>	<b>Totals</b>
\$ —	\$ —	\$ 7,359	\$ 113,163	\$ 16,397	\$ 1,055	\$ 107	\$ 309,575
239,736	41,255	—	—	—	—	—	280,991
673,806	144,803	—	—	—	—	—	818,609
916,595	198,310	—	—	—	—	—	1,114,905
—	—	395,990	719,997	383,195	—	44,859	80,818,148
4,256,200	532,268	—	—	—	—	—	4,788,468
—	—	39,218	33,791	38,891	97	4,393	2,744,149
211	57	—	—	22,535	—	—	29,059
—	—	2	32	6	—	—	173
5,777	211	584	24,704	2,046	—	95	127,167
—	—	432	14,637	1,190	—	—	56,873
—	—	42	2,691	223	—	—	6,728
261,927	14,589	—	—	—	—	—	276,516
<u>6,354,252</u>	<u>931,493</u>	<u>443,627</u>	<u>909,015</u>	<u>464,483</u>	<u>1,152</u>	<u>49,454</u>	<u>91,371,361</u>
1,017	263	96	—	—	—	—	1,376
—	—	3,482	63,145	68	—	—	76,306
—	—	40,240	34,261	39,780	95	4,492	2,780,082
<u>1,017</u>	<u>263</u>	<u>43,818</u>	<u>97,406</u>	<u>39,848</u>	<u>95</u>	<u>4,492</u>	<u>2,857,764</u>
<u>6,353,235</u>	<u>931,230</u>	<u>399,809</u>	<u>811,609</u>	<u>424,635</u>	<u>1,057</u>	<u>44,962</u>	<u>88,513,597</u>
<u>\$ 6,353,235</u>	<u>\$ 931,230</u>	<u>\$ 399,809</u>	<u>\$ 811,609</u>	<u>\$ 424,635</u>	<u>\$ 1,057</u>	<u>\$ 44,962</u>	<u>\$88,513,597</u>

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

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	<b>Teachers' and State Employees' Retirement System</b>	<b>Consolidated Judicial Retirement System</b>	<b>Legislative Retirement System</b>	<b>Firemen's and Rescue Squad Workers' Pension Fund</b>	<b>North Carolina National Guard Pension Fund</b>	<b>Local Governmental Employees' Retirement System</b>
<b>Additions:</b>						
Contributions:						
Employer.....	\$ 1,120,482	\$ 18,992	\$ —	\$ —	\$ —	\$ 383,889
Members.....	830,075	4,616	252	3,720	—	338,665
Other contributions.....	—	—	—	15,447	7,007	—
Total contributions.....	<u>1,950,557</u>	<u>23,608</u>	<u>252</u>	<u>19,167</u>	<u>7,007</u>	<u>722,554</u>
Investment Income:						
Investment earnings (loss).....	5,485,693	44,052	2,720	31,528	8,650	1,864,193
Less investment expenses.....	(273,304)	(2,203)	(133)	(1,587)	(436)	(93,472)
Net investment income (loss).....	<u>5,212,389</u>	<u>41,849</u>	<u>2,587</u>	<u>29,941</u>	<u>8,214</u>	<u>1,770,721</u>
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,314
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	—	—	—	7	—	213
Total other additions.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>7</u>	<u>—</u>	<u>3,527</u>
Total additions.....	<u>7,162,946</u>	<u>65,457</u>	<u>2,839</u>	<u>49,115</u>	<u>15,221</u>	<u>2,496,802</u>
<b>Deductions:</b>						
Claims and benefits.....	3,722,932	33,636	2,231	24,761	7,408	981,198
Medical insurance premiums .....	—	—	—	—	—	—
Refund of contributions.....	92,070	39	61	532	—	49,865
Administrative expenses.....	9,776	22	9	799	54	4,369
Other deductions.....	20	—	—	—	—	8
Total deductions.....	<u>3,824,798</u>	<u>33,697</u>	<u>2,301</u>	<u>26,092</u>	<u>7,462</u>	<u>1,035,440</u>
Change in net position.....	3,338,148	31,760	538	23,023	7,759	1,461,362
Net position — July 1.....	55,153,572	441,995	27,618	321,789	87,896	18,651,600
Net position — June 30.....	<u>\$ 58,491,720</u>	<u>\$ 473,755</u>	<u>\$ 28,156</u>	<u>\$ 344,812</u>	<u>\$ 95,655</u>	<u>\$ 20,112,962</u>

**NOTES TO THE FINANCIAL STATEMENTS**

<b>401(k) Supplemental Retirement Income Plan</b>	<b>Deferred Compensation Plan</b>	<b>Death Benefit Plan of N.C.</b>	<b>Retiree Health Benefit Fund</b>	<b>Disability Income Plan of N.C.</b>	<b>Sheriffs' Pension Fund</b>	<b>Registers of Deeds' Supplemental Pension Fund</b>	<b>Totals</b>
\$ 162,296	\$ —	\$ 22,137	\$ 813,223	\$ 64,969	\$ 921	\$ 937	\$ 2,587,846
279,937	62,645	—	—	—	—	—	1,519,910
—	—	21,967	—	—	—	—	44,421
<u>442,233</u>	<u>62,645</u>	<u>44,104</u>	<u>813,223</u>	<u>64,969</u>	<u>921</u>	<u>937</u>	<u>4,152,177</u>
632,472	84,434	(3,579)	27,993	(3,001)	10	(401)	8,174,764
—	—	(84)	(2,697)	(84)	—	(9)	(374,009)
<u>632,472</u>	<u>84,434</u>	<u>(3,663)</u>	<u>25,296</u>	<u>(3,085)</u>	<u>10</u>	<u>(410)</u>	<u>7,800,755</u>
—	—	—	—	—	—	—	3,314
10,884	591	—	—	—	—	—	11,475
1,482	217	—	—	—	—	—	1,919
12,366	808	—	—	—	—	—	16,708
<u>1,087,071</u>	<u>147,887</u>	<u>40,441</u>	<u>838,519</u>	<u>61,884</u>	<u>931</u>	<u>527</u>	<u>11,969,640</u>
315,774	50,064	45,620	—	73,955	1,063	1,578	5,260,220
—	—	192	752,117	—	—	—	752,309
—	—	—	—	—	—	—	142,567
1,819	266	798	424	956	98	15	19,405
—	—	—	—	—	—	—	28
<u>317,593</u>	<u>50,330</u>	<u>46,610</u>	<u>752,541</u>	<u>74,911</u>	<u>1,161</u>	<u>1,593</u>	<u>6,174,529</u>
769,478	97,557	(6,169)	85,978	(13,027)	(230)	(1,066)	5,795,111
5,583,757	833,673	405,978	725,631	437,662	1,287	46,028	82,718,486
<u>\$ 6,353,235</u>	<u>\$ 931,230</u>	<u>\$ 399,809</u>	<u>\$ 811,609</u>	<u>\$ 424,635</u>	<u>\$ 1,057</u>	<u>\$ 44,962</u>	<u>\$ 88,513,597</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 17: PLEDGED REVENUES**

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**Primary Government****Governmental Activities**

The State has pledged future federal transportation revenues to repay \$454.82 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2013. These bonds were issued in October 2007, August 2009 and January 2012. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds of governmental activities are expected to require less than 9% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds (including North Carolina Turnpike Authority GARVEE bonds below) may not exceed 15% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is \$543.597 million, payable through 2021. For the current fiscal year, principal and interest paid and total federal transportation revenues were \$80.553 million and \$1.138 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). On October 2010, NCTA issued Monroe Connector System State Annual Appropriation Revenue Bonds (\$233.92 million). On November 2011, NCTA issued Monroe Connector System Senior Lien Revenue Bonds (\$10 million) and State Annual Appropriation Revenue Bonds (\$214.505 million). On 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 state annual appropriations, 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 \$2.408 billion, payable through fiscal year 2042 (final maturity date). For the current fiscal year, principal and interest paid, available revenues (federal interest subsidy, federal transportation funds and investment revenues), and state appropriations (transfers in) were \$85.8 million, \$26.423 million, and \$49 million, respectively.

**Unemployment Compensation Fund**

The State has pledged future unemployment tax contributions from employers to repay \$2.155 billion in repayable advances from the Federal Unemployment Account. Proceeds from the advances were used to pay unemployment benefits because of an operating deficit in the State's Unemployment Compensation Fund.

**NOTES TO THE FINANCIAL STATEMENTS**

Currently, the repayable advances are payable from the unemployment tax contributions and additional federal unemployment taxes imposed on the State's employers for calendar year 2012. Both will be used specifically for paying down the debt until it is settled. Meanwhile, the State unemployment benefits will continue to be paid from the repayable advances.

Total revenue collected from unemployment tax contributions for the year was \$1.477 billion. The total amount collected from unemployment tax contributions and additional federal unemployment taxes used to pay down the principal on the repayable advances was \$1.47 billion.

**Component Units****University of North Carolina System**

The University of North Carolina System has pledged future revenues, net of specific operating expenses, to repay revenue bonds and certificates of participation as shown in the table below (dollars in thousands):

Purpose	Revenue Source	Future Revenues Pledged		Current Year		Final Maturity Date	Payable as of 6/30/2013
		(1) Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments		
<b>Revenue Bonds</b>							
Housing and Dining	Housing and Dining revenues	\$ 78,693	4.14% - 74.00%	\$ 18,912	\$ 4,998	2042	\$ 64,900
Utilities	Utilities Revenues	78,720	6.00% - 14.00%	42,608	8,983	2022	63,633
Health Care Facilities	Patient Service Revenues	212,105	18.00% - 100.00%	52,972	12,063	2034	142,465
Other	Various	1,210	87.00%	232	203	2019	1,060
Total		<u>\$ 370,728</u>		<u>\$ 114,724</u>	<u>\$ 26,247</u>		<u>\$ 272,058</u>
<b>Certificates of Participation</b>							
Student Housing System	Housing Revenues	\$ 88,989	59.00% - 83.00%	\$ 4,156	\$ 2,918	2037	\$ 40,655
Banner System	Tuition and Administrative Fees	790	59.00%	1,350	793	2014	760
Total		<u>\$ 89,779</u>		<u>\$ 5,506</u>	<u>\$ 3,711</u>		<u>\$ 41,415</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18: COMPONENT UNITS — FINANCIAL INFORMATION

The financial statements for the University of North Carolina System and Community Colleges include their nongovernmental component unit foundations and similarly affiliated organizations. Financial statements for component units as of and for the fiscal year ended June 30, 2013 are presented below (dollars in thousands).

## Statement of Net Position

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
<b>Assets</b>					
Cash and cash equivalents.....	\$ 2,144,061	\$ 264,051	\$ 783,488	\$ 261,773	\$ 3,453,373
Investments.....	1,755,231	78,522	—	935,962	2,769,715
Receivables, net.....	943,985	80,432	52,956	124,379	1,201,752
Due from component units.....	4,078	8,181	—	2,246	14,505
Due from primary government.....	104,774	—	—	62,564	167,338
Inventories.....	99,455	19,660	—	670	119,785
Prepaid items.....	75,085	8,426	—	2,185	85,696
Notes receivable, net.....	114,458	820	—	3,868,063	3,983,341
Investment in joint venture.....	47,967	—	—	—	47,967
Deferred charges.....	15,179	—	—	22,356	37,535
Restricted/designated cash and cash equivalents.....	1,414,073	89,006	—	736,790	2,239,869
Restricted investments.....	3,648,335	177,996	—	1,307,979	5,134,310
Restricted due from primary government.....	1,024	40,736	—	2,599	44,359
Restricted due from component units.....	—	5,967	—	—	5,967
Capital assets-nondepreciable.....	1,595,790	298,382	—	126,779	2,020,951
Capital assets-depreciable, net.....	10,440,743	2,215,999	40	647,708	13,304,490
Total Assets.....	22,404,238	3,288,178	836,484	8,102,053	34,630,953
<b>Deferred Outflows of Resources</b>					
Accumulated decrease in fair value of hedging derivatives.....	114,780	—	—	5,310	120,090
Total Deferred Outflows of Resources.....	114,780	—	—	5,310	120,090
<b>Liabilities</b>					
Accounts payable and accrued liabilities.....	739,057	58,919	24,245	133,667	955,888
Medical claims payable.....	—	—	245,331	—	245,331
Interest payable.....	42,001	51	—	25,748	67,800
Short-term debt.....	45,655	—	—	—	45,655
Due to component units.....	—	—	—	20,472	20,472
Due to primary government.....	664	28	11	1,205	1,908
Unearned revenue.....	173,130	20,574	10,512	122,987	327,203
Advance from primary government.....	—	—	—	3,441	3,441
Deposits payable.....	11,097	—	—	3,518	14,615
Funds held for others.....	834,718	6,907	—	1,226,156	2,067,781
Hedging derivatives liability.....	114,780	—	—	5,310	120,090
Long-term liabilities:					
Due within one year.....	318,995	11,685	20	275,338	606,038
Due in more than one year.....	4,722,240	106,293	313	3,392,094	8,220,940
Total Liabilities.....	7,002,337	204,457	280,432	5,209,936	12,697,162
<b>Net Position</b>					
Net investment in capital assets.....	7,862,563	2,469,593	40	637,945	10,970,141
Restricted for:					
Nonexpendable:					
Higher education.....	2,054,023	166,914	—	—	2,220,937
Expendable:					
Higher education.....	2,506,519	224,759	—	491,869	3,223,147
Health and human services.....	—	—	—	19	19
Economic development.....	—	—	—	798,429	798,429
Unrestricted.....	3,093,576	222,455	556,012	969,165	4,841,208
Total Net Position.....	\$ 15,516,681	\$ 3,083,721	\$ 556,052	\$ 2,897,427	\$ 22,053,881

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

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Total expenses.....	\$ 9,914,064	\$ 2,230,808	\$ 2,653,980	\$ 1,111,353	\$ 15,910,205
Program revenues:					
Charges for services.....	6,339,500	321,301	2,904,577	555,963	10,121,341
Operating grants and contributions:					
State aid - program.....	—	—	—	315,378	315,378
Other operating grants and contributions.....	1,418,809	924,761	63,132	252,239	2,658,941
Capital grants and contributions:					
State capital aid.....	168,884	76,007	—	2,020	246,911
Other capital grants and contributions.....	73,400	119,937	—	6,855	200,192
Net program (expense) revenue.....	(1,913,471)	(788,802)	313,729	21,102	(2,367,442)
Non-tax general revenues:					
State aid - general.....	2,652,153	916,275	—	72,360	3,640,788
Miscellaneous.....	673	—	—	1,870	2,543
Total non-tax general revenues.....	2,652,826	916,275	—	74,230	3,643,331
Contributions to endowments.....	144,012	6,542	—	—	150,554
Change in net position.....	883,367	134,015	313,729	95,332	1,426,443
Net position — July 1, as restated .....	14,633,314	2,949,706	242,323	2,802,095	20,627,438
Net position — June 30.....	\$ 15,516,681	\$ 3,083,721	\$ 556,052	\$ 2,897,427	\$ 22,053,881

**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 Governmental Funds	Other Funds	Total	University of North Carolina System	Community Colleges	Other Component Units	Total
<b>Due To Component Units:</b>								
General Fund.....	\$ —	\$ —	\$ —	\$ —	\$ 104,774	\$ —	\$ 65,163	\$ 169,937
Other Governmental Funds.....	—	—	—	—	1,024	40,736	—	41,760
<b>Due To Primary Government:</b>								
University of North Carolina System..	—	3	661	664	—	—	—	—
Community Colleges.....	—	—	28	28	—	—	—	—
State Health Plan .....	—	1	10	11	—	—	—	—
Other Component Units.....	169	1,010	26	1,205	—	—	—	—
Total.....	\$ 169	\$ 1,014	\$ 725	\$ 1,908	\$ 105,798	\$ 40,736	\$ 65,163	\$ 211,697

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 19: RELATED ORGANIZATIONS**

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**MCNC**

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate private non-profit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a Board of Directors comprised of two members appointed by the Governor; up to four members appointed by the president of the University of North Carolina System, a component unit of the State; up to seven members elected by the majority vote of persons then constituting the MCNC Board; and one member whose term expires in July 2015. Any director may be removed from office by the MCNC Board with cause.

**North Carolina Agricultural Finance Authority**

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

**North Carolina Capital Facilities Finance Agency**

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

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 20: RELATED PARTY TRANSACTIONS**

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**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 Plan contracts Galliard Capital Management, Inc., 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, which is a subsidiary of Prudential Financial, Inc., provides administrative services related to the North Carolina Stable Value Fund and the Pooled Separate Account SA-NC. Prudential is also the provider of record keeping and participant services. The fees to Prudential are deducted from the participants' account balances.

**Component Units****University of North Carolina System and Community College Foundations**

The University of North Carolina (UNC) System and community colleges have separately incorporated not-for-profit foundations that are associated with constituent institutions of the UNC System or individual colleges. These organizations serve as a fundraising arm of the respective institutions through which individuals, corporations, and other organizations support institution programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the institution's overall academic environment. These affiliated organizations are not included as component units since the economic resources received or held by an individual organization are not significant to the primary government. Therefore, the financial statements of the UNC System and community colleges do not include the assets, liabilities, net position, or operational transactions of these foundations, except for support from each organization to constituent institutions or colleges. For the fiscal year ended June 30, 2013, this support totaled \$65.32 million for the UNC System and \$1.88 million for community colleges.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 21: COMMITMENTS AND CONTINGENCIES**

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**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, 2013, was \$7.3 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. Maturing serially to calendar year 2045, the outstanding principal of such bonds and notes as of June 30, 2013, was \$2.9 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

**B. Litigation**

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

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties, but remanded the case for trial on the claim for relief based on the Court's conclusion that the Constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002, the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of state resources which may ultimately be required cannot be determined at this time; however, the total cost could exceed \$100 million.

On June 15, 2011, the General Assembly enacted legislation which placed certain restrictions on the North Carolina Pre-Kindergarten Program (N.C. Pre-K) which had been established by the General Assembly in 2001. Following a hearing requested by the plaintiffs, the trial court entered an order prohibiting the enforcement of legislation having the effect of restricting participation in the N.C. Pre-K program. On appeal, the North Carolina Court of Appeals affirmed the trial court's order prohibiting the State from denying any eligible "at risk" children admission to the N.C. Pre-K program. The State has appealed this decision and the North Carolina Supreme Court, in

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**NOTES TO THE FINANCIAL STATEMENTS**

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

**Lake v. North Carolina State Health Plan — Retiree Health Insurance.** The main issue is whether the State wrongfully charged a monthly premium to retired state employees for the state's 80/20 coinsurance health plan. The general theme of the complaint is that the State established vesting requirements under which if the employee fulfilled the requirements the State contracted with each employee to provide 80/20 insurance coverage at no monthly cost to the retiree for the duration of each retiree's retirement. Similarly, the plaintiffs allege that the State terminated an optional 90/10 health plan to which they had vested rights. Plaintiffs claim (1) breach of contract; (2) unconstitutional impairment of contract; (3) unconstitutional denial of equal protection; and (4) unconstitutional denial of due process. The plaintiffs also allege a variety of equitable claims (e.g., specific performance, common fund) that piggy-back on the legal claims.

The State has filed and briefed its motion to dismiss based on Rules of Civil Procedure 12(b) (1), (2) and (6). After a hearing, the trial court denied the motion to dismiss. The State has appealed to the North Carolina Court of Appeals.

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

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

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

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

**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.

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**NOTES TO THE FINANCIAL STATEMENTS****C. Federal Grants**

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2013, the State is unable to estimate what liabilities may result from such audits.

**D. Highway Construction**

The State has placed on deposit in court \$178.76 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 \$52.78 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of \$63.8 million. These costs have not been included in project-to-date costs.

**E. Construction and Other Commitments**

At June 30, 2013, the State had commitments of \$2.96 billion for construction of highway infrastructure. Of this amount, \$2.483 billion relates to the Highway Fund, \$9 million relates to the NC Turnpike Authority, and \$468 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$595.76 million (including \$428.46 million for the Department of Environment and Natural Resources and \$113.37 million for the Division of Mental Health within the Department of Health and Human Services).

At June 30, 2013, the University of North Carolina System (component unit) had outstanding construction commitments of \$524.56 million (including \$122.91 million for University of North Carolina at Chapel Hill, \$117.61 million for UNC Healthcare System, \$93.67 million for North Carolina State University, \$42.81 million for University of North Carolina at Charlotte, \$39.41 million for University of North Carolina at Greensboro, and \$29.13 million for University of North Carolina School of the Arts).

At June 30, 2013, community colleges (component units) had outstanding construction commitments of \$139.97 million (including \$74.91 million for Cape Fear Community College, \$25.91 million for Guilford Technical Community College, and \$16.06 million for Wake Technical Community College).

The State Treasurer has entered into contracts with external fund managers of the Real Estate Investment, Alternative Investment, Inflation Protection Investment, and Credit Investment portfolios, where the State Treasurer agrees to commit capital to these investments. The portfolios are part of the State Treasurer's Investment Pool as described in section A of Note 3. As of June 30, 2013, the State Treasurer has \$2.26 billion in unfunded commitments in the Real Estate Investment portfolio which includes 49.67 million euro and 3.42 million pounds sterling converted to U.S. dollar equivalent. In the Alternative Investment portfolio, the State Treasurer has unfunded commitments of \$1.82 billion which include 123 million euro and 65 million pounds sterling converted to the U.S. dollar equivalent. At June 30, 2013, there were also unfunded commitments in the Inflation Protection Investment and Credit Investment portfolios in the amount of \$885.14 million and \$469.16 million, respectively. In addition, the Escheat Investment Account had unfunded commitments of \$6.1 million at June 30, 2013. 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, 2013, the UNC Investment Fund had approximately \$619.56 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 \$2.2 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

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**NOTES TO THE FINANCIAL STATEMENTS**

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.

In 1999, the State approved legislation to implement the terms of the MSA in North Carolina. The State created a nonprofit corporation, The Golden LEAF, Inc. (Foundation), to distribute 50% of the settlement funds received by the State of North Carolina. The legislation directed that these funds be used for the purposes of providing economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. However, the Foundation's share of the payments may be diverted by the North Carolina General Assembly prior to the funds being received by the North Carolina State Specific Account. The Foundation is reported as a discretely presented component unit.

House Bill 200 [Session Law 2011-145] and House Bill 22 [Session Law 2011-391] stated that the Golden LEAF, Inc. (Foundation) would continue to get 50% of the settlement funds, \$46.14 million in 2013. However House Bill 950 [Session Law 2012-142, Section 2.2.(h)] as amended by Senate Bill 187 [Session Law 2012-145, Section 1.1A.(b)], diverted \$24.31 million of the Foundation's anticipated MSA payments for fiscal year 2012-2013 for General Fund availability. As of July 2013, Senate Bill 402 [Session Law 2013-360, Section 6.4.(b)] directed that any funds that would have been transferred to the Foundation be deposited to the Settlement Reserve Fund which is part of the General Fund. In addition, the State and the Foundation are in dispute over additional MSA payments of \$24.64 million. The State believes that the payments were paid erroneously to the Foundation and are due to the State.

## **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 House Bill 402 (Session Law 2013), 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 22: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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**CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2013, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*,
- Statement No. 61, *The Financial Reporting Entity: Omnibus*,
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Statement No. 60 addresses how to account for and report service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. At year-end, the State and its component units had no outstanding SCAs.

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. This Statement also amends the criteria for reporting component units using the blending method. New criteria was added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This Statement also clarifies the types of relationships that affect the determination of major component units and eliminates a requirement that the determination include consideration of each component unit’s significance relative to other component units. Based on this change, the Golden LEAF, Inc.; North Carolina Housing Finance Agency; and State Education Assistance Authority are no longer considered to be major component units.

Statement No. 62 incorporates into the GASB’s authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. The guidance generally has been taken “as-is” from the original FASB and AICPA pronouncements, except a few provisions that have been modified where necessary to relate specifically to the governmental environment. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

Statement No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. Statement No. 63 also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

## NOTES TO THE FINANCIAL STATEMENTS

**NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS**

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The amounts in the "Reporting Entity Changes" column include restatements to include High Point Regional Hospital, Caldwell Memorial Hospital, and the N.C. State University Agricultural Foundation, Inc. as component units of the University of North Carolina System and the Centennial Authority as a discretely presented component unit of the State of North Carolina. Additionally, it includes changes due to the implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which requires the primary government to report its equity interest in the NC Railroad Company as an asset (see Note 22). The amounts in the "Other Adjustments" column are primarily due to the correction of errors related to prior periods.

	July 1, 2012 Fund Equity as Previously Reported	Reporting Entity Changes	Fund Reclassifications	Other Adjustments	July 1, 2012 Fund Equity as Restated
<b>Primary Government</b>					
Major Governmental Funds:					
General Fund .....	\$ 1,022,448	\$ —	\$ 26,260	\$ 261	\$ 1,048,969
Highway Fund .....	629,073	—	—	—	629,073
Highway Trust Fund .....	381,729	—	—	—	381,729
Other Governmental Funds:					
Special Revenue Funds .....	823,582	—	(26,260)	(23,137)	774,185
Capital Projects Funds .....	532,965	—	—	—	532,965
Permanent Funds .....	109,398	—	—	—	109,398
Total Governmental Funds .....	<u>3,499,195</u>	<u>—</u>	<u>—</u>	<u>(22,876)</u>	<u>3,476,319</u>
Internal Service Funds .....	218,013	—	—	—	218,013
Government-wide adjustments:					
Equity interest in component unit .....	—	158,923	—	—	158,923
Capital assets .....	40,945,243	—	—	6,600	40,951,843
Unavailable deferred revenues .....	263,697	—	—	(5,851)	257,846
Long-term liabilities .....	(9,048,336)	—	—	—	(9,048,336)
Accrued interest payable .....	(77,813)	—	—	—	(77,813)
Investment derivatives .....	(125,116)	—	—	—	(125,116)
Pension assets .....	3,732	—	—	—	3,732
Total Government-wide adjustments .....	<u>31,961,407</u>	<u>158,923</u>	<u>—</u>	<u>749</u>	<u>32,121,079</u>
Total Governmental Activities .....	<u>35,678,615</u>	<u>158,923</u>	<u>—</u>	<u>(22,127)</u>	<u>35,815,411</u>
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund .....	(1,909,283)	—	—	—	(1,909,283)
EPA Revolving Loan Fund .....	1,238,707	—	—	—	1,238,707
N.C. Turnpike Authority .....	270,357	—	—	—	270,357
Other enterprise funds .....	131,935	—	—	(86)	131,849
Total Business-type Activities - Enterprise Funds .....	<u>(268,284)</u>	<u>—</u>	<u>—</u>	<u>(86)</u>	<u>(268,370)</u>
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds .....	82,718,486	—	—	—	82,718,486
Investment Trust Funds .....	1,019,998	(13,780)	—	—	1,006,218
Private Purpose Trust Funds .....	1,048,629	—	—	1,422	1,050,051
Total Fiduciary Funds .....	<u>84,787,113</u>	<u>(13,780)</u>	<u>—</u>	<u>1,422</u>	<u>84,774,755</u>
Total Primary Government .....	<u>\$120,197,444</u>	<u>\$ 145,143</u>	<u>\$ —</u>	<u>\$ (20,791)</u>	<u>\$120,321,796</u>
<b>Component Units</b>					
University of North Carolina System .....	14,271,804	373,747	—	(12,237)	14,633,314
Community Colleges .....	2,953,865	—	—	(4,159)	2,949,706
State Health Plan .....	242,323	—	—	—	242,323
Other component units .....	2,698,635	108,427	—	(4,967)	2,802,095
Total Component Units .....	<u>\$ 20,166,627</u>	<u>\$ 482,174</u>	<u>\$ —</u>	<u>\$ (21,363)</u>	<u>\$ 20,627,438</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 24: SUBSEQUENT EVENTS**

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**Primary Government***Federal Repayable Advances*

For the period July 1, 2013 through November 14, 2013, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of \$284.48 million. Proceeds from the advances were used to pay unemployment benefits. Interest began accruing January 1, 2013 at an interest rate of 2.58%. Since July 1, 2013 total revenue collected from unemployment tax contributions and other State sources (per Session Law 2013-360) of \$557.76 million was used to pay down the principal on the advances. At November 14, 2013, the outstanding balance of the FUA advances was \$1.88 billion.

*Global TransPark Loan Repayment*

In September 2013, the State of North Carolina transferred \$27 million from the General Fund to the Escheat Fund as payment-in-full for the outstanding loan from the Escheat Fund to the North Carolina Global TransPark Authority, as required by Session Law 2013-360 (Senate Bill 402). The loan to the Escheat Fund was originally authorized under General Statute 63A-4(a)(22) and General Statute 147-69.2(b)(11).

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

On October 25, 2013, the Board of Trustees of the Endowment Fund entered into a sales agreement for Hofmann Forest. This sale, along with an additional contribution, will generate \$150 million to be deposited in the University's Endowment Fund for the benefit of the College of Natural Resources.

*University of North Carolina System – Winston-Salem State University - Tax-exempt General Revenue Bonds*

The Winston-Salem State University issued \$36.9 million in Series 2013 tax-exempt General Revenue Bonds dated July 11, 2013, and will bear interest from that date. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing October 1, 2013. The bonds will mature from April 1, 2014 to April 1, 2043 and were issued at coupon rates ranging from 2% to 5.13%.

The University issued the bonds to provide funds for the construction of a Student Success Center, the construction of a new student housing facility, the construction of improvements on North campus and the completion of the Reaves Student Activities Center. A portion of the bonds will also be used to defease the 1998B Revenue Refunding Bonds and 2002B University of North Carolina System Pool Revenue Bonds.

*North Carolina Health Insurance Risk Pool (Pool) Dissolution*

On August 23, 2013, the North Carolina General Assembly enacted Session Law 2013-410, (House Bill 92), which requires the Pool's insurance operations to sunset on January 1, 2014. All invoices for medical, pharmacy, and any other services provided must be submitted no later than ninety days after January 1, 2014. All appeals or grievances must also be submitted no later than ninety days after January 1, 2014.

The Pool submitted a plan for the dissolution of the Pool to the North Carolina Commissioner of Insurance on September 1, 2013. The plan for dissolution of the Pool will become effective upon approval in writing by the Commissioner.

*Rural Economic Development Center, Inc. (Center) – Elimination of State Funding*

In July 2013, the Center learned that it will not receive any appropriation of funds from the State of North Carolina for its fiscal year ending June 30, 2014. Furthermore, in September 2013 the Center's Board of Directors approved a plan to return to the State all funds previously appropriated to the Center, including 1) funds associated with approved grant awards, 2) funds available for future grant making, and 3) funds available for administration of state funded grant programs. The Board also authorized a transfer to the North Carolina Department of Commerce of a portion of the interest it has earned and accumulated on undisbursed State appropriations. The Center expects to negotiate and execute governing agreements, and to complete these transfers prior to December 31, 2013. Furthermore, the Board of Directors has approved the negotiation of a sublease for a substantial portion of its office facility to the North Carolina Department of Commerce for their continuing use for rural economic development activities.



REQUIRED  
SUPPLEMENTARY  
INFORMATION

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

June 30, 2013

*(Expressed in Thousands)*

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)	<b>NOTE 1</b>		(c)	
<b>Teachers' and State Employees'</b>	12-31-12	\$ 59,911,833	\$ 63,630,278	\$ 3,718,445	94.2%	\$ 12,774,187	29.1%
	12-31-11	58,125,011	61,846,697	3,721,686	94.0%	12,801,046	29.1%
	12-31-10	57,102,198	59,876,066	2,773,868	95.4%	13,053,831	21.3%
	12-31-09	55,818,099	58,178,272	2,360,173	95.9%	13,253,030	17.8%
	12-31-08	55,127,658	55,518,745	391,087	99.3%	13,267,554	3.0%
	12-31-07	55,283,120	52,815,089	(2,468,031)	104.7%	12,701,017	(19.4)%
<b>Consolidated Judicial</b>	12-31-12	\$ 481,286	\$ 527,585	\$ 46,299	91.2%	\$ 68,237	67.9%
	12-31-11	460,647	512,643	51,996	89.9%	67,815	76.7%
	12-31-10	451,196	492,606	41,410	91.6%	66,605	62.2%
	12-31-09	439,987	474,949	34,962	92.6%	66,171	52.8%
	12-31-08	433,553	441,933	8,380	98.1%	65,083	12.9%
	12-31-07	430,356	418,137	(12,219)	102.9%	61,338	(19.9)%
<b>Legislative</b>	12-31-12	\$ 29,416	\$ 23,852	\$ (5,564)	123.3%	\$ 3,510	(158.5)%
	12-31-11	29,468	23,757	(5,711)	124.0%	3,679	(155.2)%
	12-31-10	29,835	23,752	(6,083)	125.6%	3,668	(165.8)%
	12-31-09	29,792	23,511	(6,281)	126.7%	3,622	(173.4)%
	12-31-08	30,097	23,092	(7,005)	130.3%	3,670	(190.9)%
	12-31-07	30,698	22,883	(7,815)	134.2%	3,680	(212.4)%
<b>Firemen's and Rescue Squad Workers'</b>	6-30-12	\$ 338,885	\$ 403,817	\$ 64,932	83.9%	N/A	N/A
	6-30-11	327,984	391,837	63,853	83.7%	N/A	N/A
	6-30-10	318,273	370,236	51,963	86.0%	N/A	N/A
	6-30-09	315,697	351,324	35,627	89.9%	N/A	N/A
	6-30-08	316,973	339,022	22,049	93.5%	N/A	N/A
	6-30-07	305,869	322,453	16,584	94.9%	N/A	N/A
<b>North Carolina National Guard</b>	12-31-12	\$ 96,597	\$ 131,722	\$ 35,125	73.3%	N/A	N/A
	12-31-11	91,108	129,500	38,392	70.4%	N/A	N/A
	12-31-10	86,559	127,066	40,507	68.1%	N/A	N/A
	12-31-09	81,371	121,855	40,484	66.8%	N/A	N/A
	12-31-08	78,067	112,747	34,680	69.2%	N/A	N/A
	12-31-07	74,794	109,431	34,637	68.3%	N/A	N/A
<b>Registers of Deeds'</b>	12-31-12	\$ 44,996	\$ 23,517	\$ (21,479)	191.3%	\$ 5,613	(382.7)%
	12-31-11	42,623	22,194	(20,429)	192.1%	5,875	(347.7)%
	12-31-10	40,529	22,104	(18,425)	183.4%	5,926	(310.9)%
	12-31-09	38,913	21,840	(17,073)	178.2%	6,092	(280.3)%
	12-31-08	37,212	18,365	(18,847)	202.6%	6,024	(312.9)%
	12-31-07	35,453	17,830	(17,623)	198.8%	5,869	(300.3)%
<b>Local Governmental Employees'</b>	12-31-12	\$ 20,295,239	\$ 20,338,785	\$ 43,546	99.8%	\$ 5,123,481	0.9%
	12-31-11	19,326,359	19,373,800	47,441	99.8%	5,106,766	0.9%
	12-31-10	18,570,514	18,646,430	75,916	99.6%	5,113,742	1.5%
	12-31-09	17,723,253	17,804,791	81,538	99.5%	5,184,128	1.6%
	12-31-08	17,100,739	17,173,975	73,236	99.6%	4,974,742	1.5%
	12-31-07	16,791,984	16,868,147	76,163	99.5%	4,750,682	1.6%

**NOTE 1-** A negative UAAL denotes excess actuarial assets

**N/A -** Not applicable

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 134.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES**  
**ALL DEFINED BENEFIT PENSION TRUST FUNDS**

For the Six-Year Period 2008 to 2013 (July 1 to June 30)

(Expressed in Thousands)

<u>Retirement System</u>	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	
<b>Teachers' and State Employees'</b>	2013	\$ 1,052,690	104%	
	2012	988,418	100%	
	2011	902,661	73%	
	2010	483,205	100%	
	2009	472,374	100%	
	2008	406,576	99%	Note 1
<b>Consolidated Judicial</b>	2013	\$ 18,502	100%	
	2012	17,204	100%	
	2011	13,082	78%	
	2010	10,248	100%	
	2009	8,373	106%	
	2008	8,158	104%	Note 1
<b>Legislative</b>	2013	\$ —	NR	
	2012	—	NR	
	2011	—	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	Note 1
<b>Firemen's and Rescue Squad Workers'</b>	2013	\$ 14,074	110%	
	2012	14,389	100%	
	2011	12,243	83%	
	2010	10,074	100%	
	2009	9,757	100%	
	2008	8,734	100%	
<b>North Carolina National Guard</b>	2013	\$ 5,667	124%	
	2012	6,075	115%	
	2011	5,719	122%	
	2010	5,682	123%	
	2009	6,248	94%	
	2008	6,232	112%	
<b>Registers of Deeds'</b> Note 2	2013	\$ —	NR	
	2012	—	NR	
	2011	—	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	
<b>Local Governmental Employees'</b>	2013	\$ 377,136	100%	
	2012	372,105	100%	
	2011	341,157	100%	
	2010	262,591	100%	
	2009	265,690	100%	
	2008	246,004	100%	

NR- No contribution was required or made.

Note 1- The State made additional contributions not related to the ARC of \$42.4 million for Teachers', \$2.3 million for Judicial and \$209 thousand for Legislative.

Note 2- For Registers, significant fees and collections are contributed. They are not directly related to the ARC.

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 134.

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

June 30, 2013

*(Expressed in Thousands)*

	<i>Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
			<b>(1)</b>			<b>(2)</b>	
<b>Retiree Health Benefit</b>	12-31-12	\$ 765,828	\$ 23,883,107	\$ 23,117,279	3.2%	\$ 14,957,179	154.6%
	12-31-11	729,095	30,330,346	29,610,251	2.4%	14,851,954	199.4%
	12-31-10	655,445	33,494,641	32,839,196	2.0%	15,098,336	217.5%
<b>Disability Income</b>	12-31-12	\$ 432,667	\$ 503,192	\$ 70,525	86.0%	\$ 14,163,204	0.5%
	12-31-11	406,068	511,417	105,349	79.4%	14,139,467	0.8%
	12-31-10	377,995	498,506	120,511	75.8%	14,360,373	0.8%

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

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

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

For the Fiscal Years Ended June 30, 2011-2013

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*(Expressed in Thousands)*

	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
<b>Retiree Health Benefit</b>	2013	\$ 2,021,026	42%
	2012	2,480,160	34%
	2011	2,910,616	30%
<b>Disability Income</b>	2013	\$ 64,065	100%
	2012	67,377	113%
	2011	67,841	113%

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

For the Fiscal Year Ended June 30, 2013

(Dollars in Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 10,517,500	\$ 10,612,167	\$ 10,953,141	\$ 340,974
Corporate income.....	1,075,000	1,075,000	1,191,671	116,671
Sales and use.....	5,455,750	5,455,750	5,294,147	(161,603)
Franchise.....	615,100	615,100	660,141	45,041
Insurance.....	511,100	511,100	521,509	10,409
Beverage.....	293,200	293,200	298,640	5,440
Inheritance.....	83,500	83,500	111,430	27,930
Tobacco products.....	262,800	262,800	255,401	(7,399)
Other.....	111,500	111,500	114,542	3,042
Non-Tax:				
Fees, licenses and fines.....	258,700	258,700	355,360	96,660
Investment income.....	21,600	21,600	12,468	(9,132)
Disproportionate share receipts.....	115,000	115,000	115,000	—
Other.....	435,342	435,342	477,290	41,948
Transfers in.....	247,880	247,880	247,885	5
Departmental:				
Federal funds.....	12,142,933	12,787,162	11,946,590	(840,572)
Local funds.....	703,237	787,116	746,771	(40,345)
Inter-agency grants and allocations.....	19,705	126,437	28,203	(98,234)
Intra-governmental transactions.....	3,274,990	3,616,914	3,559,911	(57,003)
Sales and services.....	136,134	141,741	140,613	(1,128)
Rental and lease of property.....	14,821	14,931	15,420	489
Fees, licenses and fines.....	927,486	669,591	672,635	3,044
Contributions, gifts and grants.....	1,432,419	805,445	617,473	(187,972)
Federal recovery funds.....	20,665	225,518	176,267	(49,251)
Miscellaneous.....	370,538	424,844	157,308	(267,536)
<b>Total Revenues.....</b>	<b>39,046,900</b>	<b>39,698,338</b>	<b>38,669,816</b>	<b>(1,028,522)</b>
<b>Expenditures:</b>				
Current:				
General government.....	1,272,508	769,756	552,156	217,600
Primary and secondary education.....	10,243,211	11,159,191	10,310,863	848,328
Higher education.....	4,376,650	4,671,104	4,624,071	47,033
Health and human services.....	18,638,496	18,873,243	18,201,057	672,186
Environment and natural resources.....	453,861	422,456	386,835	35,621
Economic development.....	552,235	707,874	639,229	68,645
Public safety, corrections, and regulation.....	2,797,473	3,087,288	2,864,362	222,926
Agriculture.....	173,130	197,891	170,695	27,196
Capital outlay.....	6,373	6,373	6,373	—
Debt service.....	760,127	788,816	739,497	49,319
<b>Total Expenditures.....</b>	<b>39,274,064</b>	<b>40,683,992</b>	<b>38,495,138</b>	<b>2,188,854</b>
Excess revenues over (under) expenditures.....	(227,164)	(985,654)	174,678	1,160,332
Total Fund Balance at July 1, as restated.....	1,785,072	1,785,072	1,785,072	—
<b>Total Fund Balance at June 30.....</b>	<b>\$ 1,557,908</b>	<b>\$ 799,418</b>	<b>\$ 1,959,750</b>	<b>\$ 1,160,332</b>
Fund balance reserved:				
Statutory.....			\$ 835,405	
Non-reverting purposes.....			773,366	
Fund balance unreserved.....			350,979	
<b>Total Fund Balance at June 30.....</b>			<b>\$ 1,959,750</b>	

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**NOTES TO THE FINANCIAL STATEMENTS**

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**BUDGETARY REPORTING**

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**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, which is described in section A.

**NOTES TO THE FINANCIAL STATEMENTS**

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2013 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>
Fund balance (budgetary basis), June 30, 2013	\$ 1,959,750
<b><u>Reconciling Adjustments:</u></b>	
<b>Basis Differences:</b>	
<b>Accrued revenues:</b>	
Taxes receivable.....	1,908,438
Accounts receivable.....	236,724
Federal funds, net.....	1,029,563
Other receivables.....	188,775
<b>Less:</b>	
Tax refunds payable.....	(1,436,997)
Deferred revenue.....	(575,270)
Total accrued revenues.....	<u>1,351,233</u>
<b>Accrued expenditures:</b>	
Medical claims payable.....	(914,053)
Accounts payable and accrued liabilities.....	(1,034,111)
Other payables.....	(286,923)
Total accrued expenditures.....	<u>(2,235,087)</u>
<b>Other Adjustments:</b>	
Notes receivable.....	47,980
Inventories.....	75,153
Investment market value .....	(6,166)
<b>Timing Differences:</b>	
Authorized carryforward for specific encumbrances .....	<u>87,072</u>
Fund balance (GAAP basis) June 30, 2013.....	<u>\$ 1,279,935</u>

**D. Budgetary Reserves**

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

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

At the beginning of fiscal year 2012-13, the balance of the Savings Reserve Account was \$418.81 million. In accordance with Session Law 2013-360, the State Controller was directed to transfer \$232.54 million from the unreserved fund balance to the Savings Reserve on June 30, 2013. At the end of the fiscal year 2012-13, the balance of this reserve was \$651.35 million.

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**NOTES TO THE FINANCIAL STATEMENTS**

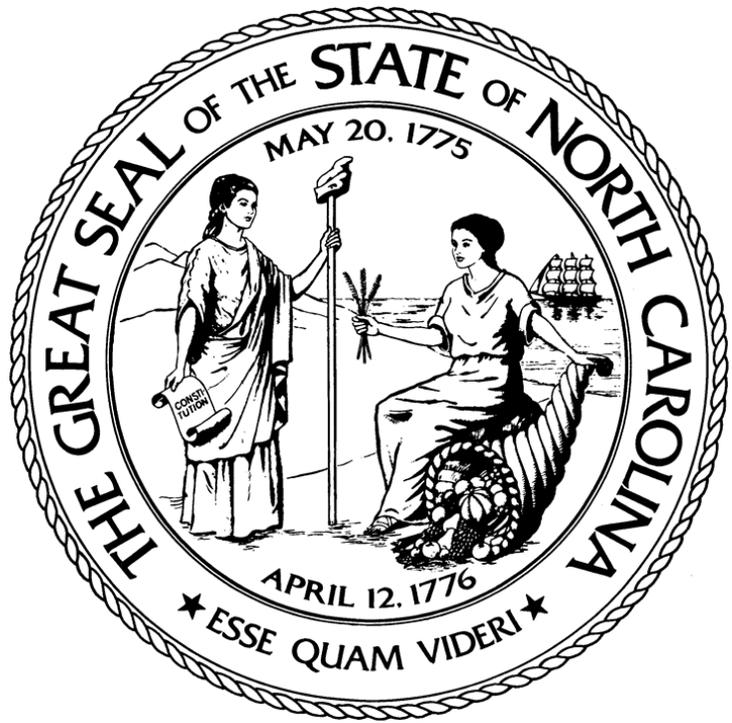
**Repairs and Renovations Reserve Account (General Statute 143C-4-3).** The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined 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 2013-360, the State Controller was directed to transfer \$150 million from the unreserved fund balance to the Repairs and Renovations Reserve on June 30, 2013. At the end of the fiscal year 2012-13, the balance of this reserve was \$161.59 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 2012-13, the balance of this reserve was \$13.22 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 \$20.9 million for fiscal year 2012-13. At the end of the fiscal year 2012-13, the balance of this reserve was \$0.25 million.

**One North Carolina Fund Reserve (General Statute 143C-9-8).** The Office of State Budget and Management, after consultation with Joint Legislative Commission on Governmental Operations on November 4, 2003, established the One North Carolina Fund Reserve. The One North Carolina fund was appropriated \$9 million for fiscal year 2012-13 by Session Law 2012-142. At the end of the fiscal year 2012-13, the balance of this reserve was \$9 million.

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*COMBINING FUND  
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*NONMAJOR  
GOVERNMENTAL  
FUNDS*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2013

Exhibit C-1

(Dollars in Thousands)

	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Permanent Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents .....	\$ 709,453	\$ —	\$ 5,299	\$ 714,752
Investments .....	209,667	—	—	209,667
Securities lending collateral .....	60,935	4,554	10,732	76,221
Receivables, net:				
Taxes receivable.....	2,145	—	—	2,145
Accounts receivable.....	20,572	—	2	20,574
Intergovernmental receivable.....	879	577	—	1,456
Interest receivable.....	172	124	3	299
Due from other funds .....	7,025	—	—	7,025
Due from component units .....	1,014	—	—	1,014
Inventories.....	29,398	—	—	29,398
Notes receivable, net.....	1,211	39,426	—	40,637
Securities held in trust.....	45,497	—	—	45,497
Restricted/designated cash and cash equivalents....	—	214,802	3,939	218,741
Restricted investments.....	1,872	372,776	102,485	477,133
Total Assets.....	<u>\$ 1,089,840</u>	<u>\$ 632,259</u>	<u>\$ 122,460</u>	<u>\$ 1,844,559</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 19,790	\$ 18,360	\$ —	\$ 38,150
Accrued payroll.....	191	—	—	191
Intergovernmental payable.....	5,558	169	—	5,727
Claims payable.....	50,690	—	—	50,690
Obligations under securities lending.....	61,200	4,690	11,028	76,918
Due to other funds .....	340	18	—	358
Due to component units .....	—	41,760	—	41,760
Deferred revenue.....	26,822	2,021	—	28,843
Deposits payable.....	3	1	—	4
Funds held for others.....	45,595	—	—	45,595
Total Liabilities.....	<u>210,189</u>	<u>67,019</u>	<u>11,028</u>	<u>288,236</u>
<b>Fund Balances:</b>				
Nonspendable.....	29,398	—	91,425	120,823
Restricted.....	440,486	364,622	14,823	819,931
Committed.....	408,989	200,618	5,184	614,791
Assigned.....	778	—	—	778
Total Fund Balances.....	<u>879,651</u>	<u>565,240</u>	<u>111,432</u>	<u>1,556,323</u>
Total Liabilities and Fund Balances.....	<u>\$ 1,089,840</u>	<u>\$ 632,259</u>	<u>\$ 122,460</u>	<u>\$ 1,844,559</u>

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

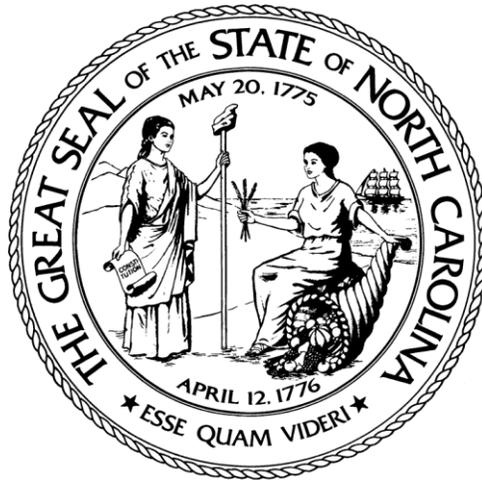
For the Fiscal Year Ended June 30, 2013

Exhibit C-2

(Dollars in Thousands)

	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Permanent Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>				
Taxes:				
Individual income tax.....	\$ 2,135	\$ —	\$ —	\$ 2,135
Sales and use tax.....	8,109	—	—	8,109
Gasoline tax.....	25,154	—	—	25,154
Insurance tax.....	19,334	—	—	19,334
Other taxes.....	148,221	—	—	148,221
Federal funds.....	77,716	5,856	—	83,572
Local funds.....	4,786	735	—	5,521
Investment earnings.....	9,059	734	(1,099)	8,694
Interest earnings on loans.....	20	755	—	775
Sales and services.....	159,247	744	—	159,991
Rental and lease of property.....	3,557	5	—	3,562
Fees, licenses, and fines.....	180,313	795	3,601	184,709
Contributions, gifts, and grants.....	23,959	22,660	11	46,630
Funds escheated.....	112,671	—	—	112,671
Federal recovery funds.....	23,456	2,878	—	26,334
Miscellaneous.....	32,791	490	—	33,281
Total revenues.....	<u>830,528</u>	<u>35,652</u>	<u>2,513</u>	<u>868,693</u>
<b>Expenditures:</b>				
Current:				
General government.....	39,542	198	—	39,740
Higher education.....	35,781	148,224	29	184,034
Health and human services.....	79,314	—	—	79,314
Economic development.....	37,957	3,668	—	41,625
Environment and natural resources.....	152,098	21,531	192	173,821
Public safety, corrections, and regulation.....	241,140	2	—	241,142
Transportation.....	6	—	—	6
Agriculture.....	15,291	86	—	15,377
Capital outlay.....	—	182,107	—	182,107
Debt service:				
Principal retirement.....	3,886	—	—	3,886
Interest and fees.....	82	111	—	193
Debt issuance costs.....	—	838	—	838
Total expenditures.....	<u>605,097</u>	<u>356,765</u>	<u>221</u>	<u>962,083</u>
Excess revenues over (under) expenditures.....	<u>225,431</u>	<u>(321,113)</u>	<u>2,292</u>	<u>(93,390)</u>
<b>Other Financing Sources (Uses):</b>				
Special indebtedness issued.....	—	250,000	—	250,000
Premium on debt issued.....	—	29,485	—	29,485
Sale of capital assets.....	239	3	—	242
Insurance recoveries.....	—	71	—	71
Transfers in.....	19,819	86,545	—	106,364
Transfers out.....	(140,023)	(12,716)	(258)	(152,997)
Total other financing sources (uses).....	<u>(119,965)</u>	<u>353,388</u>	<u>(258)</u>	<u>233,165</u>
Net change in fund balances.....	105,466	32,275	2,034	139,775
Fund balances — July 1, as restated.....	774,185	532,965	109,398	1,416,548
Fund balances — June 30.....	<u>\$ 879,651</u>	<u>\$ 565,240</u>	<u>\$ 111,432</u>	<u>\$ 1,556,323</u>

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## **NONMAJOR SPECIAL REVENUE FUNDS**

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*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.*

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The following are included in the nonmajor special revenue funds:

- Escheat Fund
- Correction Enterprises Fund
- Leaking Petroleum Underground Storage Tank Cleanup Fund
- Natural Heritage Trust Fund
- 911 Fund
- Parks and Recreation Trust Fund
- Environment Management Protection Funds
- Departmental Funds

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2013

*(Dollars in Thousands)*

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund
<b>Assets</b>						
Cash and cash equivalents .....	\$ 228,395	\$ 7,470	\$ 41,591	\$ 10,468	\$ 48,800	\$ 26,613
Investments .....	209,361	—	—	—	—	—
Securities lending collateral .....	30,905	—	3,770	892	4,313	2,129
Receivables, net:						
Taxes receivable.....	—	—	1,475	—	—	—
Accounts receivable.....	—	1,207	451	14	6,818	14
Intergovernmental receivable.....	—	141	—	—	—	—
Interest receivable.....	74	—	14	3	16	7
Due from other funds .....	—	2,222	—	—	—	—
Due from component units .....	—	3	—	—	—	—
Inventories.....	—	24,438	—	—	—	—
Notes receivable, net.....	—	—	648	—	—	—
Securities held in trust.....	—	—	—	—	—	—
Restricted investments.....	—	—	—	—	—	—
Total Assets.....	<u>\$ 468,735</u>	<u>\$ 35,481</u>	<u>\$ 47,949</u>	<u>\$ 11,377</u>	<u>\$ 59,947</u>	<u>\$ 28,763</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 281	\$ 2,105	\$ 4,083	\$ 1	\$ 435	\$ —
Accrued payroll.....	—	22	—	—	—	—
Intergovernmental payable.....	—	—	—	—	4,076	631
Claims payable.....	50,690	—	—	—	—	—
Obligations under securities lending.....	30,976	—	3,783	864	4,415	2,109
Due to other funds .....	1	96	—	—	5	—
Deferred revenue.....	3,163	9	—	—	—	12
Deposits payable.....	—	—	—	—	—	—
Funds held for others.....	—	—	—	—	—	—
Total Liabilities.....	<u>85,111</u>	<u>2,232</u>	<u>7,866</u>	<u>865</u>	<u>8,931</u>	<u>2,752</u>
<b>Fund Balances:</b>						
Nonspendable.....	—	24,438	—	—	—	—
Restricted.....	383,624	—	—	—	—	—
Committed.....	—	8,811	40,083	10,512	51,016	26,011
Assigned.....	—	—	—	—	—	—
Total Fund Balances.....	<u>383,624</u>	<u>33,249</u>	<u>40,083</u>	<u>10,512</u>	<u>51,016</u>	<u>26,011</u>
Total Liabilities and Fund Balances.....	<u>\$ 468,735</u>	<u>\$ 35,481</u>	<u>\$ 47,949</u>	<u>\$ 11,377</u>	<u>\$ 59,947</u>	<u>\$ 28,763</u>

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 131,970	\$ 214,146	\$ 709,453
—	306	209,667
8,922	10,004	60,935
670	—	2,145
2,693	9,375	20,572
—	738	879
32	26	172
3,218	1,585	7,025
—	1,011	1,014
—	4,960	29,398
—	563	1,211
45,497	—	45,497
1,872	—	1,872
<u>\$ 194,874</u>	<u>\$ 242,714</u>	<u>\$ 1,089,840</u>

\$ 4,818	\$ 8,067	\$ 19,790
71	98	191
750	101	5,558
—	—	50,690
9,189	9,864	61,200
86	152	340
97	23,541	26,822
—	3	3
45,497	98	45,595
<u>60,508</u>	<u>41,924</u>	<u>210,189</u>

—	4,960	29,398
1,474	55,388	440,486
132,892	139,664	408,989
—	778	778
<u>134,366</u>	<u>200,790</u>	<u>879,651</u>
<u>\$ 194,874</u>	<u>\$ 242,714</u>	<u>\$ 1,089,840</u>

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

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund
<b>Revenues:</b>						
Taxes:						
Individual income tax.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Sales and use tax.....	—	—	—	—	—	—
Gasoline tax.....	—	—	17,293	—	—	—
Insurance tax.....	—	—	—	—	—	—
Other taxes.....	—	—	—	10,767	69,928	32,301
Federal funds.....	—	—	—	—	—	—
Local funds.....	—	—	—	—	—	—
Investment earnings.....	6,773	—	384	66	303	198
Interest earnings on loans.....	—	—	—	—	—	—
Sales and services.....	1	90,767	—	—	706	—
Rental and lease of property.....	—	515	—	—	—	—
Fees, licenses, and fines.....	—	—	11,056	4,325	—	1,430
Contributions, gifts, and grants.....	—	133	—	—	—	1
Funds escheated.....	112,671	—	—	—	—	—
Federal recovery funds.....	—	—	—	—	—	—
Miscellaneous.....	—	197	—	—	—	—
Total revenues.....	<u>119,445</u>	<u>91,612</u>	<u>28,733</u>	<u>15,158</u>	<u>70,937</u>	<u>33,930</u>
<b>Expenditures:</b>						
Current:						
General government.....	—	—	—	—	—	—
Higher education.....	35,020	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—
Environment and natural resources.....	—	—	36,902	8,116	—	18,507
Public safety, corrections, and regulation...	—	87,927	—	—	65,252	—
Transportation.....	—	—	—	—	—	—
Agriculture.....	—	—	—	—	—	—
Debt service:						
Principal retirement.....	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—
Total expenditures.....	<u>35,020</u>	<u>87,927</u>	<u>36,902</u>	<u>8,116</u>	<u>65,252</u>	<u>18,507</u>
Excess revenues over (under) expenditures..	<u>84,425</u>	<u>3,685</u>	<u>(8,169)</u>	<u>7,042</u>	<u>5,685</u>	<u>15,423</u>
<b>Other Financing Sources (Uses):</b>						
Sale of capital assets.....	—	130	—	—	—	—
Transfers in.....	—	202	4,884	—	—	—
Transfers out.....	(22,856)	(4,180)	(5,604)	(5,356)	(22)	(14,646)
Total other financing sources (uses).....	<u>(22,856)</u>	<u>(3,848)</u>	<u>(720)</u>	<u>(5,356)</u>	<u>(22)</u>	<u>(14,646)</u>
Net change in fund balances.....	61,569	(163)	(8,889)	1,686	5,663	777
Fund balances — July 1, as restated.....	322,055	33,412	48,972	8,826	45,353	25,234
Fund balances — June 30.....	<u>\$ 383,624</u>	<u>\$ 33,249</u>	<u>\$ 40,083</u>	<u>\$ 10,512</u>	<u>\$ 51,016</u>	<u>\$ 26,011</u>

<b>Environment Management Protection Funds</b>	<b>Departmental Funds</b>	<b>Total Nonmajor Special Revenue Funds</b>
\$ —	\$ 2,135	\$ 2,135
8,109	—	8,109
7,861	—	25,154
—	19,334	19,334
16,245	18,980	148,221
—	77,716	77,716
—	4,786	4,786
575	760	9,059
—	20	20
192	67,581	159,247
621	2,421	3,557
67,888	95,614	180,313
595	23,230	23,959
—	—	112,671
524	22,932	23,456
638	31,956	32,791
<u>103,248</u>	<u>367,465</u>	<u>830,528</u>
—	39,542	39,542
—	761	35,781
—	79,314	79,314
—	37,957	37,957
88,573	—	152,098
—	87,961	241,140
—	6	6
—	15,291	15,291
1,175	2,711	3,886
35	47	82
<u>89,783</u>	<u>263,590</u>	<u>605,097</u>
<u>13,465</u>	<u>103,875</u>	<u>225,431</u>
32	77	239
842	13,891	19,819
<u>(12,947)</u>	<u>(74,412)</u>	<u>(140,023)</u>
<u>(12,073)</u>	<u>(60,444)</u>	<u>(119,965)</u>
1,392	43,431	105,466
132,974	157,359	774,185
<u>\$ 134,366</u>	<u>\$ 200,790</u>	<u>\$ 879,651</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2013

(Dollars in Thousands)

	Escheat Fund			Correction Enterprises Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund		
	Final		Variance	Final		Variance	Final		Variance
	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget
<b>Revenues:</b>									
Departmental:									
Federal funds.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Local funds.....	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	160	112	(48)	—	—	—
Intra-governmental transactions.....	—	—	—	255	244	(11)	17,039	22,181	5,142
Sales and services.....	—	—	—	92,258	88,889	(3,369)	—	—	—
Sale, rental, and lease of property..	—	—	—	325	628	303	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	9,580	11,186	1,606
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—	—
Federal recovery funds.....	—	—	—	—	—	—	—	—	—
Miscellaneous.....	202,107	116,871	(85,236)	176	163	(13)	110	220	110
Total revenues.....	<u>202,107</u>	<u>116,871</u>	<u>(85,236)</u>	<u>93,174</u>	<u>90,036</u>	<u>(3,138)</u>	<u>26,729</u>	<u>33,587</u>	<u>6,858</u>
<b>Expenditures:</b>									
Current:									
General government.....	—	—	—	—	—	—	—	—	—
Higher education.....	77,015	67,447	9,568	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources.....	—	—	—	—	—	—	41,410	40,195	1,215
Public safety and corrections.....	—	—	—	94,574	89,391	5,183	—	—	—
Agriculture.....	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement.....	—	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—	—
Total expenditures.....	<u>77,015</u>	<u>67,447</u>	<u>9,568</u>	<u>94,574</u>	<u>89,391</u>	<u>5,183</u>	<u>41,410</u>	<u>40,195</u>	<u>1,215</u>
Excess revenues over (under) expenditures	<u>\$125,092</u>	49,424	<u>\$ (75,668)</u>	<u>\$ (1,400)</u>	645	<u>\$ 2,045</u>	<u>\$ (14,681)</u>	(6,608)	<u>\$ 8,073</u>
Fund balances (budgetary basis)									
at July 1, as restated.....		<u>380,705</u>			<u>6,825</u>			<u>48,199</u>	
Fund balances (budgetary basis)									
at June 30.....		<u>\$ 430,129</u>			<u>\$ 7,470</u>			<u>\$ 41,591</u>	

Natural Heritage Trust Fund			911 Fund			Parks and Recreation Trust Fund			Environment Management Protection Funds		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	500	316	(184)
4,217	10,767	6,550	—	—	—	17,065	32,301	15,236	49,323	50,906	1,583
—	—	—	705	704	(1)	—	—	—	37	192	155
—	—	—	—	—	—	—	—	—	53	652	599
4,190	4,324	134	86,802	69,727	(17,075)	1,425	1,425	—	108,253	67,716	(40,537)
—	—	—	—	—	—	—	—	—	93	299	206
—	—	—	—	—	—	—	—	—	632	611	(21)
109	47	(62)	336	209	(127)	127	130	3	2,055	1,051	(1,004)
<u>8,516</u>	<u>15,138</u>	<u>6,622</u>	<u>87,843</u>	<u>70,640</u>	<u>(17,203)</u>	<u>18,617</u>	<u>33,856</u>	<u>15,239</u>	<u>160,946</u>	<u>121,743</u>	<u>(39,203)</u>
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
15,974	13,469	2,505	—	—	—	33,977	32,517	1,460	175,940	116,155	59,785
—	—	—	99,473	64,971	34,502	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	1,175	1,175	—
—	—	—	—	—	—	—	—	—	129	35	94
<u>15,974</u>	<u>13,469</u>	<u>2,505</u>	<u>99,473</u>	<u>64,971</u>	<u>34,502</u>	<u>33,977</u>	<u>32,517</u>	<u>1,460</u>	<u>177,244</u>	<u>117,365</u>	<u>59,879</u>
<u>\$ (7,458)</u>	<u>1,669</u>	<u>\$ 9,127</u>	<u>\$(11,630)</u>	<u>5,669</u>	<u>\$ 17,299</u>	<u>\$(15,360)</u>	<u>1,339</u>	<u>\$ 16,699</u>	<u>\$ (16,298)</u>	<u>4,378</u>	<u>\$ 20,676</u>
	<u>8,799</u>			<u>43,131</u>			<u>25,274</u>			<u>129,578</u>	
	<u>\$ 10,468</u>			<u>\$ 48,800</u>			<u>\$ 26,613</u>			<u>\$ 133,956</u>	

Continued

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)  
NONMAJOR SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2013

Exhibit C-5

(Dollars in Thousands)

	Departmental Funds			Total Nonmajor Special Revenue Funds		
	Final		Variance	Final		Variance
	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget
<b>Revenues:</b>						
Departmental:						
Federal funds.....	\$ 99,270	\$ 80,072	\$ (19,198)	\$ 99,270	\$ 80,072	\$ (19,198)
Local funds.....	7,342	4,773	(2,569)	7,342	4,773	(2,569)
Inter-agency grants and allocations.....	34,360	18,855	(15,505)	35,020	19,283	(15,737)
Intra-governmental transactions.....	79,526	64,972	(14,554)	167,425	181,371	13,946
Sales and services.....	60,708	51,052	(9,656)	153,708	140,837	(12,871)
Sale, rental, and lease of property..	2,019	2,498	479	2,397	3,778	1,381
Fees, licenses, and fines.....	82,929	98,747	15,818	293,179	253,125	(40,054)
Contributions, gifts, and grants.....	9,365	7,080	(2,285)	9,458	7,379	(2,079)
Federal recovery funds.....	33,448	22,932	(10,516)	34,080	23,543	(10,537)
Miscellaneous.....	54,076	59,938	5,862	259,096	178,629	(80,467)
Total revenues.....	<u>463,043</u>	<u>410,919</u>	<u>(52,124)</u>	<u>1,060,975</u>	<u>892,790</u>	<u>(168,185)</u>
<b>Expenditures:</b>						
Current:						
General government.....	95,256	64,074	31,182	95,256	64,074	31,182
Higher education.....	983	836	147	77,998	68,283	9,715
Health and human services.....	116,408	93,754	22,654	116,408	93,754	22,654
Economic development.....	69,544	42,679	26,865	69,544	42,679	26,865
Environmental and natural resources.....	—	—	—	267,301	202,336	64,965
Public safety and corrections.....	197,281	159,670	37,611	391,328	314,032	77,296
Agriculture.....	20,055	17,154	2,901	20,055	17,154	2,901
Debt service:						
Principal retirement.....	—	—	—	1,175	1,175	—
Interest and fees.....	—	—	—	129	35	94
Total expenditures.....	<u>499,527</u>	<u>378,167</u>	<u>121,360</u>	<u>1,039,194</u>	<u>803,522</u>	<u>235,672</u>
Excess revenues over (under) expenditures	<u>\$ (36,484)</u>	<u>32,752</u>	<u>\$ 69,236</u>	<u>\$ 21,781</u>	<u>89,268</u>	<u>\$ 67,487</u>
Fund balances (budgetary basis)						
at July 1, as restated.....		<u>180,866</u>			<u>823,377</u>	
Fund balances (budgetary basis)						
at June 30.....		<u>\$ 213,618</u>			<u>\$ 912,645</u>	



## **NONMAJOR CAPITAL PROJECTS FUNDS**

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*The Capital Projects funds are maintained to account for those financial resources received and used for the acquisition, construction or improvement of major governmental capital assets, as well as to provide grants for capital assets for component units and other governmental entities. They are financed principally by debt proceeds and transfers from the General Fund.*

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

- Non-Debt Supported Fund
- Debt Supported Fund
- N.C. Infrastructure Finance Corporation
- State Energy Contracts

**COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS**

June 30, 2013

Exhibit C-6

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	N.C. Infrastructure Finance Corporation	State Energy Contracts	Total Nonmajor Capital Projects Funds
<b>Assets</b>					
Securities lending collateral.....	\$ 4,554	\$ —	\$ —	\$ —	\$ 4,554
Receivables, net:					
Intergovernmental receivable.....	577	—	—	—	577
Interest receivable.....	122	2	—	—	124
Notes receivable, net.....	39,426	—	—	—	39,426
Restricted/designated cash and cash equivalents...	214,800	2	—	—	214,802
Restricted investments.....	—	368,612	4,164	—	372,776
Total Assets.....	<u>\$ 259,479</u>	<u>\$ 368,616</u>	<u>\$ 4,164</u>	<u>\$ —</u>	<u>\$ 632,259</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 7,304	\$ 10,795	\$ 261	\$ —	\$ 18,360
Intergovernmental payable.....	71	98	—	—	169
Obligations under securities lending.....	4,690	—	—	—	4,690
Due to other funds .....	14	4	—	—	18
Due to component units.....	39,087	1,937	736	—	41,760
Deferred revenue.....	2,021	—	—	—	2,021
Deposits payable.....	1	—	—	—	1
Total Liabilities.....	<u>53,188</u>	<u>12,834</u>	<u>997</u>	<u>—</u>	<u>67,019</u>
<b>Fund Balances:</b>					
Restricted.....	5,673	355,782	3,167	—	364,622
Committed.....	200,618	—	—	—	200,618
Total Fund Balances.....	<u>206,291</u>	<u>355,782</u>	<u>3,167</u>	<u>—</u>	<u>565,240</u>
Total Liabilities and Fund Balances.....	<u>\$ 259,479</u>	<u>\$ 368,616</u>	<u>\$ 4,164</u>	<u>\$ —</u>	<u>\$ 632,259</u>

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

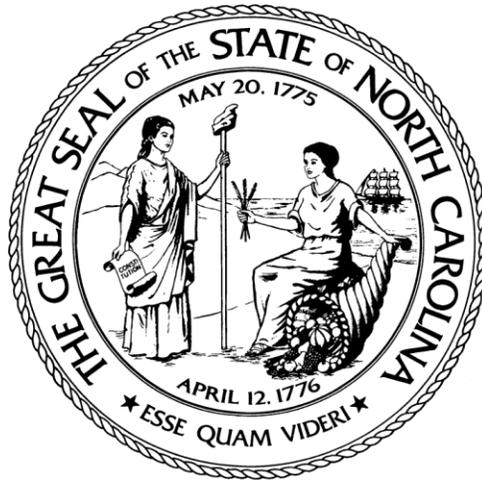
For the Fiscal Year Ended June 30, 2013

Exhibit C-7

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	N.C. Infrastructure Finance Corporation	State Energy Contracts	Total Nonmajor Capital Projects Funds
<b>Revenues:</b>					
Federal funds.....	\$ 5,856	\$ —	\$ —	\$ —	\$ 5,856
Local funds.....	735	—	—	—	735
Investment earnings.....	252	472	10	—	734
Interest earnings on loans.....	755	—	—	—	755
Sales and services.....	744	—	—	—	744
Rental and lease of property.....	5	—	—	—	5
Fees, licenses and fines.....	795	—	—	—	795
Contributions, gifts, and grants.....	22,660	—	—	—	22,660
Federal recovery funds.....	2,878	—	—	—	2,878
Miscellaneous.....	490	—	—	—	490
Total revenues.....	<u>35,170</u>	<u>472</u>	<u>10</u>	<u>—</u>	<u>35,652</u>
<b>Expenditures:</b>					
Current:					
General government.....	—	33	165	—	198
Higher education.....	18,943	129,172	109	—	148,224
Economic development.....	—	3,668	—	—	3,668
Environment & natural resources.....	12,907	8,624	—	—	21,531
Public safety, corrections, and regulation.....	2	—	—	—	2
Agriculture.....	86	—	—	—	86
Capital outlay.....	64,674	114,451	2,982	—	182,107
Debt service:					
Interest and fees.....	—	108	3	—	111
Debt issuance costs.....	—	838	—	—	838
Total expenditures.....	<u>96,612</u>	<u>256,894</u>	<u>3,259</u>	<u>—</u>	<u>356,765</u>
Excess revenues over (under) expenditures.....	<u>(61,442)</u>	<u>(256,422)</u>	<u>(3,249)</u>	<u>—</u>	<u>(321,113)</u>
<b>Other Financing Sources (Uses):</b>					
Special indebtedness issued.....	—	250,000	—	—	250,000
Premium on debt issued.....	—	29,485	—	—	29,485
Sale of capital assets.....	3	—	—	—	3
Insurance recoveries.....	71	—	—	—	71
Transfers in.....	86,545	—	—	—	86,545
Transfers out.....	(1,251)	(10,744)	—	(721)	(12,716)
Total other financing sources (uses).....	<u>85,368</u>	<u>268,741</u>	<u>—</u>	<u>(721)</u>	<u>353,388</u>
Net change in fund balances.....	23,926	12,319	(3,249)	(721)	32,275
Fund balances — July 1.....	182,365	343,463	6,416	721	532,965
Fund balances — June 30.....	<u>\$ 206,291</u>	<u>\$ 355,782</u>	<u>\$ 3,167</u>	<u>\$ —</u>	<u>\$ 565,240</u>

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## NONMAJOR PERMANENT FUNDS

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

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The following are included in nonmajor permanent funds:

Wildlife Endowment Fund  
Departmental Funds

**COMBINING BALANCE SHEET  
NONMAJOR PERMANENT FUNDS**

June 30, 2013

Exhibit C-8

*(Dollars in Thousands)*

	<b>Wildlife Endowment Fund</b>	<b>Departmental Funds</b>	<b>Total Nonmajor Permanent Funds</b>
<b>Assets</b>			
Cash and cash equivalents.....	\$ —	\$ 5,299	\$ 5,299
Securities lending collateral.....	9,942	790	10,732
Receivables, net:			
Accounts receivable.....	2	—	2
Interest receivable.....	—	3	3
Restricted/designated cash and cash equivalents..	339	3,600	3,939
Restricted investments.....	101,933	552	102,485
Total Assets.....	<u>\$ 112,216</u>	<u>\$ 10,244</u>	<u>\$ 122,460</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Obligations under securities lending.....	\$ 10,224	\$ 804	\$ 11,028
Total Liabilities.....	<u>10,224</u>	<u>804</u>	<u>11,028</u>
<b>Fund Balances:</b>			
Nonspendable.....	87,277	4,148	91,425
Restricted.....	14,715	108	14,823
Committed.....	—	5,184	5,184
Total Fund Balances.....	<u>101,992</u>	<u>9,440</u>	<u>111,432</u>
Total Liabilities and Fund Balances.....	<u>\$ 112,216</u>	<u>\$ 10,244</u>	<u>\$ 122,460</u>

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

For the Fiscal Year Ended June 30, 2013

Exhibit C-9

*(Dollars in Thousands)*

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
<b>Revenues:</b>			
Investment earnings.....	\$ (1,157)	\$ 58	\$ (1,099)
Fees, licenses, and fines.....	2,823	778	3,601
Contributions, gifts, and grants.....	11	—	11
Total revenues.....	<u>1,677</u>	<u>836</u>	<u>2,513</u>
<b>Expenditures:</b>			
Current:			
Higher education.....	—	29	29
Environment and natural resources.....	105	87	192
Total expenditures.....	<u>105</u>	<u>116</u>	<u>221</u>
Excess revenues over (under) expenditures.....	<u>1,572</u>	<u>720</u>	<u>2,292</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out.....	(258)	—	(258)
Total other financing sources (uses).....	<u>(258)</u>	<u>—</u>	<u>(258)</u>
Net change in fund balances.....	1,314	720	2,034
Fund balances — July 1.....	100,678	8,720	109,398
Fund balances — June 30.....	<u>\$ 101,992</u>	<u>\$ 9,440</u>	<u>\$ 111,432</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)  
NONMAJOR PERMANENT FUNDS**

For the Fiscal Year Ended June 30, 2013

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>						
Departmental:						
Intra-governmental transactions.....	\$ 1,469	\$ 3,731	\$ 2,262	\$ 680	\$ —	\$ (680)
Fees, licenses, and fines.....	2,893	2,822	(71)	1,310	778	(532)
Contributions, gifts, and grants.....	7	11	4	—	—	—
Miscellaneous.....	3,830	10,105	6,275	295	65	(230)
Total revenues.....	<u>8,199</u>	<u>16,669</u>	<u>8,470</u>	<u>2,285</u>	<u>843</u>	<u>(1,442)</u>
<b>Expenditures:</b>						
Current:						
Higher education.....	—	—	—	32	32	—
Environmental and natural resources.....	4,189	4,084	105	611	85	526
Total expenditures.....	<u>4,189</u>	<u>4,084</u>	<u>105</u>	<u>643</u>	<u>117</u>	<u>526</u>
Excess revenues over (under) expenditures	<u>\$ 4,010</u>	<u>12,585</u>	<u>\$ 8,575</u>	<u>\$ 1,642</u>	<u>726</u>	<u>\$ (916)</u>
Fund balances (budgetary basis)						
at July 1.....		<u>96,199</u>			<u>8,739</u>	
Fund balances (budgetary basis)						
at June 30.....		<u>\$ 108,784</u>			<u>\$ 9,465</u>	

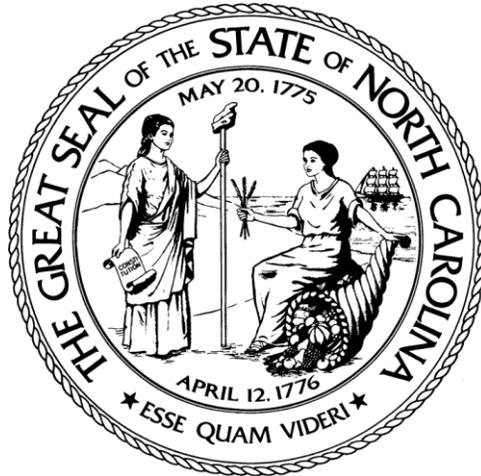
<b>Total Nonmajor Permanent Funds</b>		
<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
\$ 2,149	\$ 3,731	\$ 1,582
4,203	3,600	(603)
7	11	4
<u>4,125</u>	<u>10,170</u>	<u>6,045</u>
<u>10,484</u>	<u>17,512</u>	<u>7,028</u>
32	32	—
<u>4,800</u>	<u>4,169</u>	<u>631</u>
<u>4,832</u>	<u>4,201</u>	<u>631</u>
<u>\$ 5,652</u>	<u>13,311</u>	<u>\$ 7,659</u>
	<u>104,938</u>	
	<u>\$ 118,249</u>	

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# *PROPRIETARY FUNDS*

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## NONMAJOR ENTERPRISE FUNDS

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

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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, 2013

*(Dollars in Thousands)*

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents.....	\$ 12,880	\$ 2,204	\$ 3,555	\$ 1,396	\$ 4,631	\$ 1,141
Investments.....	65,848	—	2,249	—	11,215	—
Securities lending collateral.....	7,470	—	221	—	1,479	80
Receivables:						
Accounts receivable, net.....	—	528	311	19	—	1
Interest receivable.....	4	—	—	—	1	—
Premiums receivable.....	3,026	—	—	—	23	—
Notes receivable.....	—	—	—	—	—	—
Inventories.....	—	129	199	14	—	32
Prepaid items.....	3,594	—	188	—	487	—
Restricted cash and cash equivalents.....	—	—	52	—	—	—
Total current assets.....	<u>92,822</u>	<u>2,861</u>	<u>6,775</u>	<u>1,429</u>	<u>17,836</u>	<u>1,254</u>
<b>Noncurrent Assets:</b>						
Investments.....	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Deferred charges.....	—	—	—	—	—	—
Capital assets-nondepreciable.....	—	1,379	475	3,755	—	—
Capital assets-depreciable, net.....	—	5,455	2,505	8,740	—	198
Total noncurrent assets.....	<u>—</u>	<u>6,834</u>	<u>2,980</u>	<u>12,495</u>	<u>—</u>	<u>198</u>
Total Assets.....	<u>92,822</u>	<u>9,695</u>	<u>9,755</u>	<u>13,924</u>	<u>17,836</u>	<u>1,452</u>
<b>Liabilities</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued liabilities:						
Accounts payable.....	5	169	108	42	9	11
Accrued payroll.....	—	56	57	3	—	—
Intergovernmental payable.....	—	—	—	—	—	—
Claims payable.....	7,960	—	—	—	18,581	—
Obligations under securities lending.....	7,661	—	232	—	1,466	56
Due to other funds.....	1	7	—	3	—	12
Unearned revenue.....	5,997	504	23	—	3,618	—
Deposits payable.....	—	12	—	—	—	—
Notes payable.....	—	—	—	—	—	—
Compensated absences.....	6	20	14	9	—	95
Total current liabilities.....	<u>21,630</u>	<u>768</u>	<u>434</u>	<u>57</u>	<u>23,674</u>	<u>174</u>
<b>Noncurrent Liabilities:</b>						
Accounts payable.....	—	—	—	—	—	—
Notes payable.....	—	—	—	—	—	—
Compensated absences.....	93	324	80	147	—	1,474
Total noncurrent liabilities.....	<u>93</u>	<u>324</u>	<u>80</u>	<u>147</u>	<u>—</u>	<u>1,474</u>
Total Liabilities.....	<u>21,723</u>	<u>1,092</u>	<u>514</u>	<u>204</u>	<u>23,674</u>	<u>1,648</u>
<b>Net Position</b>						
Net investment in capital assets.....	—	6,834	2,980	12,495	—	198
Restricted for:						
Capital outlay.....	—	—	52	—	—	—
Other purposes.....	—	—	—	—	—	—
Unrestricted.....	71,099	1,769	6,209	1,225	(5,838)	(394)
Total Net Position.....	<u>\$ 71,099</u>	<u>\$ 8,603</u>	<u>\$ 9,241</u>	<u>\$ 13,720</u>	<u>\$ (5,838)</u>	<u>\$ (196)</u>

<u>State Banking Commission</u>	<u>ABC Commission</u>	<u>Occupational Licensing Boards</u>	<u>Departmental Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 1,244	\$ 3,981	\$ 15,097	\$ 5,553	\$ 51,682
—	—	15,220	—	94,532
—	—	160	391	9,801
—	—	46	40	945
—	—	45	1	51
—	—	—	—	3,049
—	—	3	—	3
—	14	68	57	513
—	—	480	—	4,749
—	—	—	—	52
<u>1,244</u>	<u>3,995</u>	<u>31,119</u>	<u>6,042</u>	<u>165,377</u>
—	—	8,403	—	8,403
—	—	114	—	114
—	—	3	—	3
—	550	5,941	339	12,439
<u>82</u>	<u>2,279</u>	<u>16,171</u>	<u>7,115</u>	<u>42,545</u>
<u>82</u>	<u>2,829</u>	<u>30,632</u>	<u>7,454</u>	<u>63,504</u>
<u>1,326</u>	<u>6,824</u>	<u>61,751</u>	<u>13,496</u>	<u>228,881</u>
50	622	1,643	51	2,710
—	—	126	27	269
—	—	—	3	3
—	—	—	—	26,541
—	—	168	411	9,994
24	18	2	6	73
—	—	17,532	3	27,677
—	—	—	—	12
—	—	197	—	197
<u>64</u>	<u>15</u>	<u>26</u>	<u>21</u>	<u>270</u>
<u>138</u>	<u>655</u>	<u>19,694</u>	<u>522</u>	<u>67,746</u>
—	—	17	—	17
—	—	4,392	—	4,392
<u>997</u>	<u>228</u>	<u>1,477</u>	<u>356</u>	<u>5,176</u>
<u>997</u>	<u>228</u>	<u>5,886</u>	<u>356</u>	<u>9,585</u>
<u>1,135</u>	<u>883</u>	<u>25,580</u>	<u>878</u>	<u>77,331</u>
82	2,829	17,534	7,454	50,406
—	—	—	—	52
—	—	943	—	943
<u>109</u>	<u>3,112</u>	<u>17,694</u>	<u>5,164</u>	<u>100,149</u>
<u>\$ 191</u>	<u>\$ 5,941</u>	<u>\$ 36,171</u>	<u>\$ 12,618</u>	<u>\$ 151,550</u>

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

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
<b>Operating Revenues:</b>						
Sales and services.....	\$ —	\$ 207	\$ 793	\$ 24	\$ —	\$ 25
Student tuition and fees, net.....	—	—	—	—	—	—
Rental and lease earnings.....	—	5,154	194	960	—	—
Fees, licenses, and fines.....	—	9,144	2,230	1,881	—	14,145
Insurance premiums.....	14,507	—	—	—	4,768	—
Miscellaneous.....	—	1	23	—	—	110
Total operating revenues.....	<u>14,507</u>	<u>14,506</u>	<u>3,240</u>	<u>2,865</u>	<u>4,768</u>	<u>14,280</u>
<b>Operating Expenses:</b>						
Personal services.....	644	5,651	1,432	1,407	—	12,488
Supplies and materials.....	9	1,321	91	188	—	160
Services.....	60	4,796	1,124	860	783	1,011
Cost of goods sold.....	—	—	340	—	—	—
Depreciation.....	—	506	119	505	—	16
Claims.....	915	54	—	—	10,665	—
Insurance and bonding.....	4,502	117	21	75	—	1
Other.....	1	1,017	209	31	—	798
Total operating expenses.....	<u>6,131</u>	<u>13,462</u>	<u>3,336</u>	<u>3,066</u>	<u>11,448</u>	<u>14,474</u>
Operating income (loss).....	<u>8,376</u>	<u>1,044</u>	<u>(96)</u>	<u>(201)</u>	<u>(6,680)</u>	<u>(194)</u>
<b>Nonoperating Revenues (Expenses):</b>						
Noncapital grants.....	—	—	—	—	—	654
Noncapital gifts, net.....	—	390	—	—	—	—
Investment earnings (loss).....	(529)	—	298	—	(279)	8
Interest and fees.....	—	—	—	—	—	—
Insurance recoveries.....	5,943	—	—	—	—	—
Grants, aid and subsidies.....	—	—	—	—	—	—
Gain (loss) on sale of equipment.....	—	(3)	—	(6)	—	—
Miscellaneous.....	(10)	10	—	1	(2)	2
Total nonoperating revenues (expenses).....	<u>5,404</u>	<u>397</u>	<u>298</u>	<u>(5)</u>	<u>(281)</u>	<u>664</u>
Income (loss) before contributions and transfers.....	13,780	1,441	202	(206)	(6,961)	470
Capital contributions.....	—	—	236	7,344	—	—
Transfers in.....	—	44	—	57	2,624	—
Transfers out.....	—	(4,740)	—	(203)	—	(311)
Change in net position.....	13,780	(3,255)	438	6,992	(4,337)	159
Net position — July 1, as restated.....	57,319	11,858	8,803	6,728	(1,501)	(355)
Net position — June 30.....	<u>\$ 71,099</u>	<u>\$ 8,603</u>	<u>\$ 9,241</u>	<u>\$ 13,720</u>	<u>\$ (5,838)</u>	<u>\$ (196)</u>

<b>State Banking Commission</b>	<b>ABC Commission</b>	<b>Occupational Licensing Boards</b>	<b>Departmental Funds</b>	<b>Total Nonmajor Enterprise Funds</b>
\$ —	\$ 2	\$ 451	\$ 78	\$ 1,580
—	—	11	—	11
—	—	—	1,173	7,481
15,176	12,632	35,603	3,291	94,102
—	—	—	—	19,275
20	8	378	34	574
<u>15,196</u>	<u>12,642</u>	<u>36,443</u>	<u>4,576</u>	<u>123,023</u>
9,986	2,574	24,951	4,150	63,283
97	84	833	340	3,123
2,062	8,040	6,906	1,575	27,217
—	—	—	49	389
7	117	1,387	242	2,899
—	—	162	—	11,796
1	16	44	111	4,888
741	38	1,276	524	4,635
<u>12,894</u>	<u>10,869</u>	<u>35,559</u>	<u>6,991</u>	<u>118,230</u>
<u>2,302</u>	<u>1,773</u>	<u>884</u>	<u>(2,415)</u>	<u>4,793</u>
—	—	—	—	654
—	—	—	547	937
—	—	650	6	154
—	—	(112)	—	(112)
—	—	—	—	5,943
(2,547)	—	—	—	(2,547)
—	—	7	—	(2)
—	—	12	7	20
<u>(2,547)</u>	<u>—</u>	<u>557</u>	<u>560</u>	<u>5,047</u>
(245)	1,773	1,441	(1,855)	9,840
—	—	—	—	7,580
—	—	—	5,306	8,031
<u>(154)</u>	<u>(296)</u>	<u>—</u>	<u>(46)</u>	<u>(5,750)</u>
(399)	1,477	1,441	3,405	19,701
590	4,464	34,730	9,213	131,849
<u>\$ 191</u>	<u>\$ 5,941</u>	<u>\$ 36,171</u>	<u>\$ 12,618</u>	<u>\$ 151,550</u>

## COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

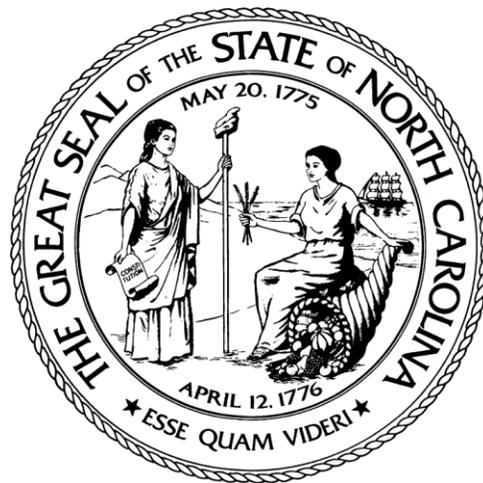
For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
<b>Cash Flows from Operating Activities:</b>						
Receipts from customers.....	\$ 14,937	\$ 13,951	\$ 3,261	\$ 2,848	\$ 5,284	\$ 14,180
Payments to suppliers.....	(5,074)	(6,222)	(1,772)	(1,134)	(1,251)	(1,369)
Payments to employees.....	(638)	(5,622)	(1,418)	(1,397)	—	(12,419)
Payments for prizes, benefits, and claims.....	(16,850)	(54)	—	—	(11,075)	—
Other receipts.....	—	11	—	1	—	112
Other payments.....	—	(979)	—	(19)	—	(615)
Net cash flows provided (used) by operating activities.....	(7,625)	1,085	71	299	(7,042)	(111)
<b>Cash Provided From (Used For)</b>						
<b>Noncapital Financing Activities:</b>						
Grant receipts.....	—	—	—	—	—	654
Grants, aid, and subsidies.....	—	—	—	—	—	—
Transfers from other funds.....	—	44	—	57	2,624	—
Transfers to other funds.....	—	(4,740)	—	(203)	—	(311)
Gifts.....	—	390	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	—	(4,306)	—	(146)	2,624	343
<b>Cash Provided From (Used For)</b>						
<b>Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets.....	—	(229)	(78)	(67)	—	(11)
Proceeds from the sale of capital assets.....	—	—	—	—	—	—
Proceeds from capital debt.....	—	—	—	—	—	—
Capital contributions.....	—	—	63	—	—	—
Principal paid on capital debt.....	—	—	—	—	—	—
Interest paid on capital debt.....	—	—	—	—	—	—
Insurance recoveries.....	5,943	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities.....	5,943	(229)	(15)	(67)	—	(11)
<b>Cash Provided From (Used For)</b>						
<b>Investment Activities:</b>						
Proceeds from the sale/maturities of non-State Treasurer investments.....	5,000	—	981	—	—	—
Purchase of non-State Treasurer investments.....	(6,000)	—	(53)	—	—	—
Redemptions from State Treasurer investment pool.....	—	—	—	—	6,000	—
Investment earnings.....	84	—	53	—	12	7
Total cash provided from (used for) investment activities.....	(916)	—	981	—	6,012	7
Net increase (decrease) in cash and cash equivalents.....	(2,598)	(3,450)	1,037	86	1,594	228
Cash and cash equivalents at July 1.....	15,478	5,654	2,570	1,310	3,037	913
Cash and cash equivalents at June 30.....	\$ 12,880	\$ 2,204	\$ 3,607	\$ 1,396	\$ 4,631	\$ 1,141
<b>Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:</b>						
Operating income (loss).....	\$ 8,376	\$ 1,044	\$ (96)	\$ (201)	\$ (6,680)	\$ (194)
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation.....	—	506	119	505	—	16
Nonoperating miscellaneous income (expense).....	—	10	—	1	—	2
(Increases) decreases in assets:						
Receivables.....	(1,654)	(348)	14	(17)	(16)	10
Inventories.....	—	(5)	37	(2)	—	—
Prepaid items.....	(504)	—	103	—	(470)	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities.....	(15,930)	58	(115)	6	(408)	(11)
Due to other funds.....	(3)	(1)	—	(2)	—	(3)
Compensated absences.....	6	32	2	9	—	69
Unearned revenue.....	2,084	(206)	7	—	532	—
Deposits payable.....	—	(5)	—	—	—	—
Total cash provided from (used for) operations.....	(7,625)	1,085	71	299	(7,042)	(111)
<b>Noncash Investing, Capital, and Financing Activities:</b>						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ —	\$ —	\$ —	\$ 744	\$ —
Donated assets (fair market value).....	—	—	—	7,344	—	—
Change in fair value of investments.....	146	—	263	—	(1,038)	1
Increase in receivables related to nonoperating income.....	—	—	172	2	—	—
Change in securities lending collateral.....	1,956	—	115	—	109	4

	State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$	15,712	\$ 12,732	\$ 36,497	\$ 4,482	\$ 123,884
	(2,388)	(7,572)	(7,962)	(2,139)	(36,883)
	(9,950)	(2,593)	(24,910)	(4,033)	(62,980)
	—	—	—	—	(27,979)
	20	—	402	3	549
	(520)	(15)	(1,276)	(473)	(3,897)
	<u>2,874</u>	<u>2,552</u>	<u>2,751</u>	<u>(2,160)</u>	<u>(7,306)</u>
	—	—	—	—	654
	(3,033)	—	—	—	(3,033)
	—	—	—	5,306	8,031
	(154)	(296)	—	(46)	(5,750)
	—	—	—	547	937
	<u>(3,187)</u>	<u>(296)</u>	<u>—</u>	<u>5,807</u>	<u>839</u>
	—	—	(2,425)	(11)	(2,821)
	—	—	22	—	22
	—	—	1,716	—	1,716
	—	—	—	—	63
	—	—	(437)	—	(437)
	—	—	(112)	—	(112)
	—	—	—	—	5,943
	<u>—</u>	<u>—</u>	<u>(1,236)</u>	<u>(11)</u>	<u>4,374</u>
	—	—	16,361	—	22,342
	—	—	(14,580)	—	(20,633)
	—	—	6	—	6,006
	—	—	354	22	532
	<u>—</u>	<u>—</u>	<u>2,141</u>	<u>22</u>	<u>8,247</u>
	(313)	2,256	3,656	3,658	6,154
	1,557	1,725	11,441	1,895	45,580
\$	<u>1,244</u>	<u>3,981</u>	<u>15,097</u>	<u>5,553</u>	<u>51,734</u>
\$	2,302	\$ 1,773	\$ 884	\$ (2,415)	\$ 4,793
	7	117	1,387	242	2,899
	—	1	12	7	33
	536	90	19	8	(1,358)
	—	—	9	(3)	36
	—	—	(115)	—	(986)
	(4)	588	41	6	(15,769)
	(3)	1	(1)	1	(11)
	36	(18)	90	100	326
	—	—	425	(106)	2,736
	—	—	—	—	(5)
\$	<u>2,874</u>	<u>2,552</u>	<u>2,751</u>	<u>(2,160)</u>	<u>(7,306)</u>
\$	—	\$ —	\$ —	\$ —	\$ 744
	—	—	—	—	7,344
	—	—	129	17	(482)
	—	—	—	—	174
	—	—	104	326	2,614

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## INTERNAL SERVICE FUNDS

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

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The following activities are included in the internal service funds:

*Office of the State Controller:*

Workers' Compensation Program

*Department of Administration:*

Motor Fleet Management  
Mail Service Center  
Temporary Solutions  
Surplus Property

*Office of the Governor:*

Computing Services  
State Telecommunications Services

*Department of Insurance:*

State Property Fire Insurance

## COMBINING STATEMENT OF NET POSITION INTERNAL SERVICE FUNDS

June 30, 2013

*(Dollars in Thousands)*

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents.....	\$ 4,311	\$ 27,602	\$ 36,441	\$ —	\$ 2,257
Investments.....	—	28,555	—	—	—
Securities lending collateral.....	—	5,270	—	—	—
Receivables:					
Accounts receivable, net.....	1,500	—	1,596	173	3,272
Interest receivable.....	—	9	—	—	—
Premiums receivable.....	—	94	—	—	—
Due from other funds.....	4,993	—	3,135	18	9
Due from component units.....	—	—	353	—	—
Inventories.....	—	—	158	175	—
Prepaid items.....	—	—	—	—	—
Total current assets.....	<u>10,804</u>	<u>61,530</u>	<u>41,683</u>	<u>366</u>	<u>5,538</u>
<b>Noncurrent Assets:</b>					
Capital assets-nondepreciable.....	—	—	288	—	—
Capital assets-depreciable, net.....	—	—	32,090	278	—
Total noncurrent assets.....	<u>—</u>	<u>—</u>	<u>32,378</u>	<u>278</u>	<u>—</u>
Total Assets.....	<u>10,804</u>	<u>61,530</u>	<u>74,061</u>	<u>644</u>	<u>5,538</u>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued liabilities:					
Accounts payable.....	—	3,728	1,338	21	3
Accrued payroll.....	—	—	—	6	1,933
Intergovernmental payable.....	—	—	—	—	—
Claims payable.....	—	1,119	—	—	—
Obligations under securities lending.....	—	5,350	—	—	—
Due to other funds.....	—	—	9	651	2
Unearned revenue.....	—	7,077	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences.....	—	14	11	14	3
Total current liabilities.....	<u>—</u>	<u>17,288</u>	<u>1,358</u>	<u>692</u>	<u>1,941</u>
<b>Noncurrent Liabilities:</b>					
Capital leases payable.....	—	—	—	—	—
Compensated absences.....	—	263	151	200	44
Total noncurrent liabilities.....	<u>—</u>	<u>263</u>	<u>151</u>	<u>200</u>	<u>44</u>
Total Liabilities.....	<u>—</u>	<u>17,551</u>	<u>1,509</u>	<u>892</u>	<u>1,985</u>
<b>Net Position</b>					
Net investment in capital assets.....	—	—	32,378	278	—
Unrestricted.....	10,804	43,979	40,174	(526)	3,553
Total Net Position.....	<u>\$ 10,804</u>	<u>\$ 43,979</u>	<u>\$ 72,552</u>	<u>\$ (248)</u>	<u>\$ 3,553</u>

<u>Computing Services</u>	<u>State Telecommu- nications Services</u>	<u>Surplus Property</u>	<u>Totals</u>
\$ 8,742	\$ 13,268	\$ 770	\$ 93,391
—	—	—	28,555
—	—	—	5,270
534	5,651	34	12,760
—	—	—	9
—	—	—	94
5,713	3,863	5	17,736
15	357	—	725
12	—	—	345
556	546	—	1,102
<u>15,572</u>	<u>23,685</u>	<u>809</u>	<u>159,987</u>
3,089	—	19	3,396
<u>48,737</u>	<u>3,971</u>	<u>73</u>	<u>85,149</u>
<u>51,826</u>	<u>3,971</u>	<u>92</u>	<u>88,545</u>
<u>67,398</u>	<u>27,656</u>	<u>901</u>	<u>248,532</u>
1,435	538	694	7,757
—	—	—	1,939
—	—	2	2
—	—	—	1,119
—	—	—	5,350
57	236	128	1,083
—	—	—	7,077
—	123	—	123
193	74	6	315
<u>1,685</u>	<u>971</u>	<u>830</u>	<u>24,765</u>
—	323	—	323
<u>3,536</u>	<u>1,346</u>	<u>86</u>	<u>5,626</u>
<u>3,536</u>	<u>1,669</u>	<u>86</u>	<u>5,949</u>
<u>5,221</u>	<u>2,640</u>	<u>916</u>	<u>30,714</u>
51,826	3,525	92	88,099
10,351	21,491	(107)	129,719
<u>\$ 62,177</u>	<u>\$ 25,016</u>	<u>\$ (15)</u>	<u>\$ 217,818</u>

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

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
<b>Operating Revenues:</b>					
Federal funds.....	\$ —	\$ —	\$ —	\$ —	\$ —
Sales and services.....	85,336	—	39,021	3,699	26,804
Rental and lease earnings.....	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—
Insurance premiums.....	—	20,986	—	—	—
Miscellaneous.....	—	—	109	—	—
Total operating revenues.....	<u>85,336</u>	<u>20,986</u>	<u>39,130</u>	<u>3,699</u>	<u>26,804</u>
<b>Operating Expenses:</b>					
Personal services.....	—	1,905	2,391	2,946	25,737
Supplies and materials.....	—	7	17,066	56	25
Services.....	84,746	125	2,374	874	95
Cost of goods sold.....	—	—	445	—	—
Depreciation.....	—	—	9,812	65	—
Claims.....	—	372	—	—	—
Insurance and bonding.....	—	15,124	1,264	1	2
Other.....	—	107	23	102	28
Total operating expenses.....	<u>84,746</u>	<u>17,640</u>	<u>33,375</u>	<u>4,044</u>	<u>25,887</u>
Operating income (loss).....	<u>590</u>	<u>3,346</u>	<u>5,755</u>	<u>(345)</u>	<u>917</u>
<b>Nonoperating Revenues (Expenses):</b>					
Noncapital grants.....	—	—	—	—	—
Investment earnings.....	—	433	—	—	—
Interest and fees.....	—	—	—	—	—
Insurance recoveries.....	—	—	110	—	—
Gain (loss) on sale of equipment.....	—	—	505	—	—
Miscellaneous.....	205	(9)	63	—	—
Total nonoperating revenues (expenses).....	<u>205</u>	<u>424</u>	<u>678</u>	<u>—</u>	<u>—</u>
Income (loss) before contributions and transfers.....	795	3,770	6,433	(345)	917
Capital contributions.....	—	—	396	—	—
Transfers in.....	1,138	—	—	—	—
Transfers out.....	—	—	—	—	—
Change in net position.....	<u>1,933</u>	<u>3,770</u>	<u>6,829</u>	<u>(345)</u>	<u>917</u>
Net position — July 1, as restated.....	8,871	40,209	65,723	97	2,636
Net position — June 30.....	<u>\$ 10,804</u>	<u>\$ 43,979</u>	<u>\$ 72,552</u>	<u>\$ (248)</u>	<u>\$ 3,553</u>

Computing Services	State Telecommunications Services	Surplus Property	Totals
\$ 1	\$ —	\$ —	\$ 1
94,916	86,574	2,118	338,468
—	—	26	26
138	—	80	218
—	—	—	20,986
—	74	129	312
<u>95,055</u>	<u>86,648</u>	<u>2,353</u>	<u>360,011</u>
33,628	11,225	1,386	79,218
14,926	1,778	58	33,916
15,419	56,713	333	160,679
—	—	250	695
8,285	2,422	13	20,597
—	—	—	372
136	36	21	16,584
30,260	6,499	33	37,052
<u>102,654</u>	<u>78,673</u>	<u>2,094</u>	<u>349,113</u>
<u>(7,599)</u>	<u>7,975</u>	<u>259</u>	<u>10,898</u>
59	—	—	59
—	—	—	433
(14)	(79)	—	(93)
—	—	—	110
10	—	—	515
5	—	(1)	263
<u>60</u>	<u>(79)</u>	<u>(1)</u>	<u>1,287</u>
(7,539)	7,896	258	12,185
—	—	—	396
4,882	—	—	6,020
<u>(14,057)</u>	<u>(4,739)</u>	<u>—</u>	<u>(18,796)</u>
(16,714)	3,157	258	(195)
78,891	21,859	(273)	218,013
<u>\$ 62,177</u>	<u>\$ 25,016</u>	<u>\$ (15)</u>	<u>\$ 217,818</u>

## COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

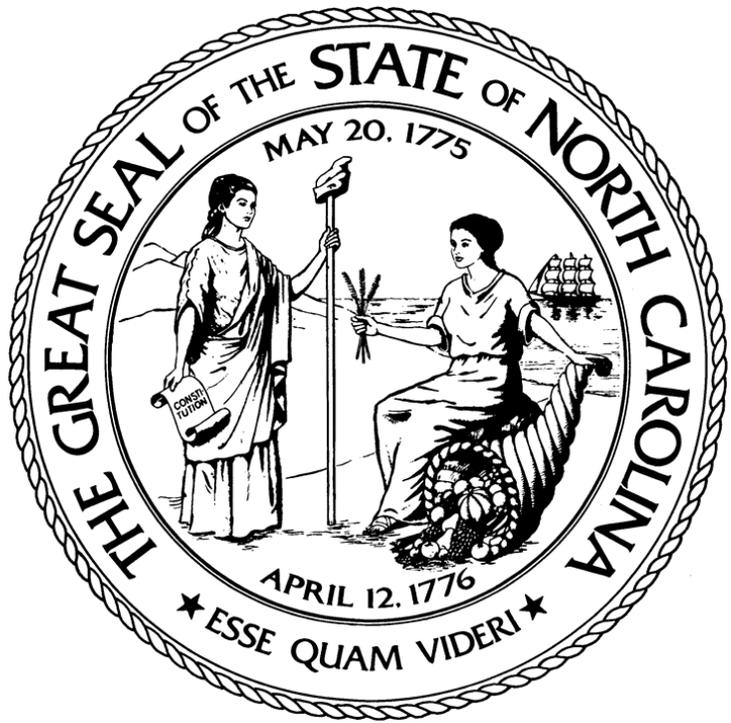
For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
<b>Cash Flows From Operating Activities:</b>					
Receipts from customers.....	\$ 10,210	\$ 12,732	\$ 3,941	\$ 620	\$ —
Receipts from federal agencies.....	—	—	—	—	—
Receipts from other funds.....	74,872	6,292	35,587	3,028	25,482
Payments to suppliers.....	(84,746)	(18,262)	(17,417)	(264)	(49)
Payments to employees.....	—	(1,898)	(2,381)	(2,914)	(25,198)
Payments for benefits and claims.....	—	(573)	—	—	—
Payments to other funds.....	—	(233)	(4,009)	(450)	(75)
Other receipts.....	205	—	172	—	—
Other payments.....	—	—	(13)	(20)	(26)
Net cash flows provided (used) by operating activities.....	541	(1,942)	15,880	—	134
<b>Cash Provided From (Used For)</b>					
<b>Noncapital Financing Activities:</b>					
Grant receipts.....	—	—	—	—	—
Interest expense and issuance cost.....	—	—	—	—	—
Transfers from other funds.....	1,138	—	—	—	—
Transfers to other funds.....	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	1,138	—	—	—	—
<b>Cash Provided From (Used For)</b>					
<b>Capital and Related Financing Activities:</b>					
Acquisition and construction of capital assets.....	—	—	(16,209)	—	—
Proceeds from the sale of capital assets.....	—	—	1,662	—	—
Principal paid on capital debt.....	—	—	—	—	—
Interest paid on capital debt.....	—	—	—	—	—
Insurance recoveries.....	—	—	110	—	—
Total cash provided from (used for) capital and related financing activities.....	—	—	(14,437)	—	—
<b>Cash Provided From (Used For)</b>					
<b>Investment Activities:</b>					
Investment earnings.....	—	157	—	—	—
Total cash provided from (used for) investment activities.....	—	157	—	—	—
Net increase (decrease) in cash and cash equivalents.....	1,679	(1,785)	1,443	—	134
Cash and cash equivalents at July 1.....	2,632	29,387	34,998	—	2,123
Cash and cash equivalents at June 30.....	\$ 4,311	\$ 27,602	\$ 36,441	\$ —	\$ 2,257
<b>Reconciliation of Operating Income to Net Cash Provided</b>					
<b>From (Used For) Operating Activities:</b>					
Operating income (loss).....	\$ 590	\$ 3,346	\$ 5,755	\$ (345)	\$ 917
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation.....	—	—	9,812	65	—
Nonoperating miscellaneous income (expense).....	205	—	63	—	—
(Increases) decreases in assets:					
Receivables.....	968	(82)	527	(50)	(1,410)
Due from other funds.....	(1,222)	—	(6)	(1)	87
Due from component units.....	—	—	(14)	—	—
Inventories.....	—	—	(12)	100	—
Prepaid items.....	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	—	(3,332)	(238)	3	549
Due to other funds.....	—	—	(20)	196	(2)
Compensated absences.....	—	6	13	32	(7)
Unearned revenue.....	—	(1,880)	—	—	—
Total cash provided from (used for) operations.....	\$ 541	\$ (1,942)	\$ 15,880	\$ —	\$ 134
<b>Noncash Investing, Capital, and Financing Activities:</b>					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ 1,433	\$ —	\$ —	\$ —
Donated or transferred assets.....	—	—	396	—	—
Change in fair value of investments.....	—	(1,172)	—	—	—
Change in securities lending collateral.....	—	421	—	—	—

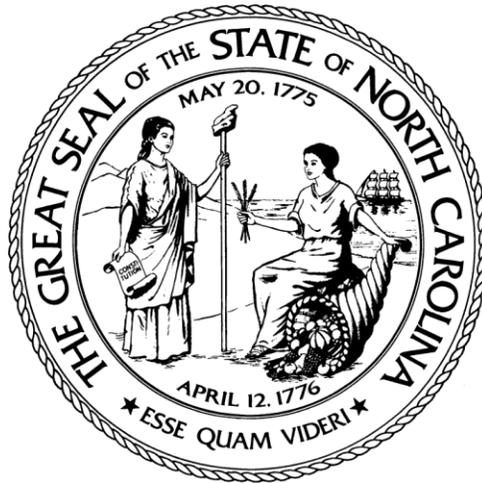
Computing Services	State Telecommunications Services	Surplus Property	Totals
\$ 809	\$ 18,370	\$ 889	\$ 47,571
1	—	—	1
94,645	68,551	1,437	309,894
(54,307)	(62,263)	(505)	(237,813)
(33,665)	(11,246)	(1,385)	(78,687)
—	—	—	(573)
(5,656)	(2,745)	(217)	(13,385)
5	74	129	585
—	—	(7)	(66)
<u>1,832</u>	<u>10,741</u>	<u>341</u>	<u>27,527</u>
59	—	—	59
(14)	—	—	(14)
4,882	—	—	6,020
(14,057)	(4,739)	—	(18,796)
<u>(9,130)</u>	<u>(4,739)</u>	<u>—</u>	<u>(12,731)</u>
(6,959)	(1,529)	—	(24,697)
24	—	—	1,686
—	(811)	—	(811)
—	(79)	—	(79)
—	—	—	110
<u>(6,935)</u>	<u>(2,419)</u>	<u>—</u>	<u>(23,791)</u>
—	—	—	157
—	—	—	157
(14,233)	3,583	341	(8,838)
<u>22,975</u>	<u>9,685</u>	<u>429</u>	<u>102,229</u>
<u>\$ 8,742</u>	<u>\$ 13,268</u>	<u>\$ 770</u>	<u>\$ 93,391</u>
\$ (7,599)	\$ 7,975	\$ 259	\$ 10,898
8,285	2,422	13	20,597
5	—	(1)	272
432	1,250	104	1,739
191	(677)	(1)	(1,629)
3	(46)	—	(57)
—	—	—	88
129	(422)	—	(293)
642	518	(90)	(1,948)
7	(82)	56	155
(36)	(17)	1	(8)
(227)	(180)	—	(2,287)
<u>\$ 1,832</u>	<u>\$ 10,741</u>	<u>\$ 341</u>	<u>\$ 27,527</u>
\$ —	\$ —	\$ —	\$ 1,433
78	(78)	—	396
—	—	—	(1,172)
—	—	—	421

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# *FIDUCIARY FUNDS*

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## INVESTMENT TRUST FUNDS

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*Investment trust funds account for the external portion of the Investment Pool and other investments that are legally separate entities and are not part of the state reporting entity.*

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The following activities are included in the investment trust funds:

State Treasurer Investment Pool  
Public Hospitals Investment Account

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

June 30, 2013

Exhibit F-1

*(Dollars in Thousands)*

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
<b>Assets</b>			
Cash and cash equivalents.....	\$ 12,390	\$ —	\$ 12,390
Investments:			
State Treasurer investment pool.....	896,509	99,459	995,968
Securities lending collateral.....	72,148	9	72,157
Receivables:			
Interest receivable.....	1,763	—	1,763
Total Assets.....	<u>982,810</u>	<u>99,468</u>	<u>1,082,278</u>
<b>Liabilities</b>			
Obligations under securities lending.....	<u>73,817</u>	<u>10</u>	<u>73,827</u>
Total Liabilities.....	<u>73,817</u>	<u>10</u>	<u>73,827</u>
<b>Net Position</b>			
Held in trust for:			
Pool participants.....	908,993	99,458	1,008,451
Total Net Position.....	<u>\$ 908,993</u>	<u>\$ 99,458</u>	<u>\$ 1,008,451</u>

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

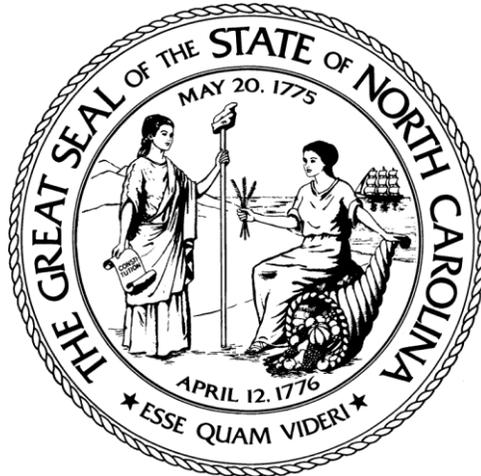
For the Fiscal Year Ended June 30, 2013

Exhibit F-2

*(Dollars in Thousands)*

	<b>State Treasurer Investment Pool</b>	<b>Public Hospitals Investment Account</b>	<b>Totals</b>
<b>Additions:</b>			
Investment Income:			
Investment earnings.....	\$ 18,691	\$ 14,968	\$ 33,659
Less investment expenses.....	(365)	(281)	(646)
Net investment income.....	<u>18,326</u>	<u>14,687</u>	<u>33,013</u>
Pool share transactions:			
Reinvestment of dividends.....	18,326	14,687	33,013
Net share purchases/(redemptions).....	(39,337)	8,557	(30,780)
Net pool share transactions.....	<u>(21,011)</u>	<u>23,244</u>	<u>2,233</u>
Total Additions.....	<u>(2,685)</u>	<u>37,931</u>	<u>35,246</u>
<b>Deductions:</b>			
Distributions paid and payable.....	<u>18,326</u>	<u>14,687</u>	<u>33,013</u>
Total Deductions.....	<u>18,326</u>	<u>14,687</u>	<u>33,013</u>
Change in net position.....	(21,011)	23,244	2,233
Net position — July 1, as restated.....	930,004	76,214	1,006,218
Net position — June 30.....	<u>\$ 908,993</u>	<u>\$ 99,458</u>	<u>\$ 1,008,451</u>

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## PRIVATE PURPOSE TRUST FUNDS

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

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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, 2013

Exhibit F-3

*(Dollars in Thousands)*

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
<b>Assets</b>				
Cash and cash equivalents.....	\$ 432	\$ 101,147	\$ 7,364	\$ 108,943
Investments:				
U.S. government securities.....	—	528	—	528
Certificates of deposit.....	—	52,975	—	52,975
State Treasurer investment pool.....	—	—	6,785	6,785
Securities lending collateral.....	38	—	638	676
Receivables:				
Interest receivable.....	—	—	2	2
Sureties.....	870,871	—	—	870,871
Total Assets.....	<u>871,341</u>	<u>154,650</u>	<u>14,789</u>	<u>1,040,780</u>
<b>Liabilities</b>				
Obligations under securities lending.....	39	—	666	705
Total Liabilities.....	<u>39</u>	<u>—</u>	<u>666</u>	<u>705</u>
<b>Net Position</b>				
Held in trust for:				
Individuals, organizations, and other governments.....	871,302	154,650	14,123	1,040,075
Total Net Position.....	<u>\$ 871,302</u>	<u>\$ 154,650</u>	<u>\$ 14,123</u>	<u>\$ 1,040,075</u>

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

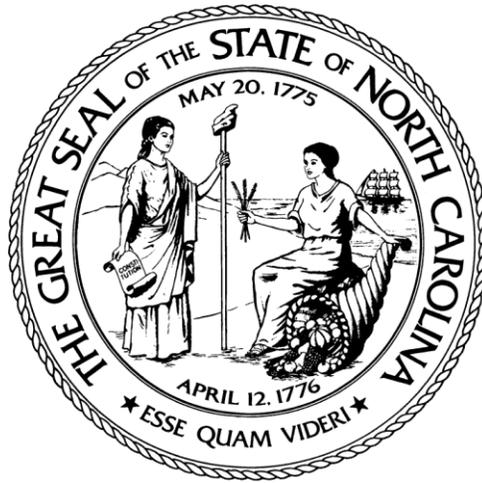
For the Fiscal Year Ended June 30, 2013

Exhibit F-4

*(Dollars in Thousands)*

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
<b>Additions:</b>				
Contributions:				
Trustee deposits.....	\$ 13,126	\$ 112,718	\$ 40	\$ 125,884
Total contributions.....	<u>13,126</u>	<u>112,718</u>	<u>40</u>	<u>125,884</u>
Investment Income:				
Investment earnings.....	4	2,890	51	2,945
Less investment expenses.....	—	—	(9)	(9)
Net investment income.....	<u>4</u>	<u>2,890</u>	<u>42</u>	<u>2,936</u>
Total Additions.....	<u>13,130</u>	<u>115,608</u>	<u>82</u>	<u>128,820</u>
<b>Deductions:</b>				
Payments in accordance with trust arrangements.....	11,689	126,470	637	138,796
Total Deductions.....	<u>11,689</u>	<u>126,470</u>	<u>637</u>	<u>138,796</u>
Change in net position.....	1,441	(10,862)	(555)	(9,976)
Net position — July 1, as restated.....	869,861	165,512	14,678	1,050,051
Net position — June 30.....	<u>\$ 871,302</u>	<u>\$ 154,650</u>	<u>\$ 14,123</u>	<u>\$ 1,040,075</u>

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## AGENCY FUNDS

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

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The following activities are included in the agency funds:

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

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	Balance, July 1, 2012 (as restated)	Additions	Deductions	Balance, June 30, 2013
<b>Local Sales Tax Collections</b>				
<b>Assets</b>				
Cash and cash equivalents.....	\$ 375,903	\$ 2,360,022	\$ (2,327,025)	\$ 408,900
Receivables:				
Taxes receivable.....	119,700	135,700	(119,700)	135,700
Due from other funds.....	26,779	29,504	(26,778)	29,505
Total Assets.....	<u>\$ 522,382</u>	<u>\$ 2,525,226</u>	<u>\$ (2,473,503)</u>	<u>\$ 574,105</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 522,382	\$ 2,525,226	\$ (2,473,503)	\$ 574,105
Total Liabilities.....	<u>\$ 522,382</u>	<u>\$ 2,525,226</u>	<u>\$ (2,473,503)</u>	<u>\$ 574,105</u>
<b>Clerks of Court</b>				
<b>Assets</b>				
Cash and cash equivalents.....	\$ 96,268	\$ 1,788,451	\$ (1,788,852)	\$ 95,867
Receivables:				
Accounts receivable.....	378	5,258	(5,247)	389
Sureties.....	97,888	48,984	(49,098)	97,774
Total Assets.....	<u>\$ 194,534</u>	<u>\$ 1,842,693</u>	<u>\$ (1,843,197)</u>	<u>\$ 194,030</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 5,051	\$ 106,171	\$ (106,788)	\$ 4,434
Funds held for others.....	189,483	547,411	(547,298)	189,596
Total Liabilities.....	<u>\$ 194,534</u>	<u>\$ 653,582</u>	<u>\$ (654,086)</u>	<u>\$ 194,030</u>
<b>Intra-Entity Investment Fund Deposits</b>				
<b>Assets</b>				
Cash and cash equivalents.....	\$ 3,994,905	\$ 484,498	\$ —	\$ 4,479,403
Investments:				
State Treasurer investment pool.....	40,673	102	—	40,775
Securities lending collateral.....	412,640	—	(13,324)	399,316
Total Assets.....	<u>\$ 4,448,218</u>	<u>\$ 484,600</u>	<u>\$ (13,324)</u>	<u>\$ 4,919,494</u>
<b>Liabilities</b>				
Obligations under securities lending.....	\$ 431,230	\$ —	\$ (22,043)	\$ 409,187
Funds held for others.....	4,016,988	504,283	(10,964)	4,510,307
Total Liabilities.....	<u>\$ 4,448,218</u>	<u>\$ 504,283</u>	<u>\$ (33,007)</u>	<u>\$ 4,919,494</u>
<b>Insurers in Receivership</b>				
<b>Assets</b>				
Cash and cash equivalents.....	\$ 48,241	\$ 121	\$ —	\$ 48,362
Investments:				
Corporate bonds.....	7,145	—	(2,814)	4,331
Corporate stocks.....	2,168	—	(2,168)	—
Receivables:				
Accounts receivable.....	7,849	—	(7,040)	809
Total Assets.....	<u>\$ 65,403</u>	<u>\$ 121</u>	<u>\$ (12,022)</u>	<u>\$ 53,502</u>
<b>Liabilities</b>				
Funds held for others.....	\$ 65,403	\$ 121	\$ (12,022)	\$ 53,502
Total Liabilities.....	<u>\$ 65,403</u>	<u>\$ 121</u>	<u>\$ (12,022)</u>	<u>\$ 53,502</u>

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2013

Exhibit F-5

*(Dollars in Thousands)*

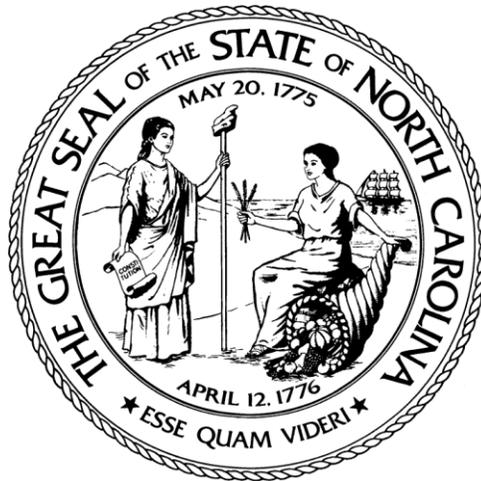
	Balance, July 1, 2012 (as restated)	Additions	Deductions	Balance, June 30, 2013
<b>Departmental Funds</b>				
<b>Assets</b>				
Cash and cash equivalents.....	\$ 62,786	\$ 2,808,660	\$ (2,796,534)	\$ 74,912
Investments:				
Certificates of deposit.....	325	—	—	325
Securities lending collateral.....	3,186	7	(447)	2,746
Receivables:				
Accounts receivable.....	7,511	—	(4,310)	3,201
Intergovernmental receivables.....	—	203	(203)	—
Due from other funds.....	—	14,077	—	14,077
Total Assets.....	<u>\$ 73,808</u>	<u>\$ 2,822,947</u>	<u>\$ (2,801,494)</u>	<u>\$ 95,261</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 385	\$ 323	\$ (338)	\$ 370
Intergovernmental payable.....	33,507	365,608	(338,805)	60,310
Obligations under securities lending.....	3,334	—	(525)	2,809
Deposits payable.....	1,969	3,206	(3,250)	1,925
Funds held for others.....	34,613	87,824	(92,590)	29,847
Total Liabilities.....	<u>\$ 73,808</u>	<u>\$ 456,961</u>	<u>\$ (435,508)</u>	<u>\$ 95,261</u>
 <b>Total Agency Funds</b>				
<b>Assets</b>				
Cash and cash equivalents.....	\$ 4,578,103	\$ 7,441,752	\$ (6,912,411)	\$ 5,107,444
Investments:				
Corporate bonds.....	7,145	—	(2,814)	4,331
Corporate stocks.....	2,168	—	(2,168)	—
Certificates of deposit.....	325	—	—	325
State Treasurer investment pool.....	40,673	102	—	40,775
Securities lending collateral.....	415,826	7	(13,771)	402,062
Receivables:				
Taxes receivable.....	119,700	135,700	(119,700)	135,700
Accounts receivable.....	15,738	5,258	(16,597)	4,399
Intergovernmental receivables.....	—	203	(203)	—
Due from other funds.....	26,779	43,581	(26,778)	43,582
Sureties.....	97,888	48,984	(49,098)	97,774
Total Assets.....	<u>\$ 5,304,345</u>	<u>\$ 7,675,587</u>	<u>\$ (7,143,540)</u>	<u>\$ 5,836,392</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 385	\$ 323	\$ (338)	\$ 370
Intergovernmental payable.....	560,940	2,997,005	(2,919,096)	638,849
Obligations under securities lending.....	434,564	—	(22,568)	411,996
Deposits payable.....	1,969	3,206	(3,250)	1,925
Funds held for others.....	4,306,487	1,139,639	(662,874)	4,783,252
Total Liabilities.....	<u>\$ 5,304,345</u>	<u>\$ 4,140,173</u>	<u>\$ (3,608,126)</u>	<u>\$ 5,836,392</u>

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## *COMPONENT UNITS*

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## COMPONENT UNITS – DISCRETELY PRESENTED

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

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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
- Rural Economic Development Center
- N.C. Global TransPark Authority
- North Carolina Railroad Company
- North Carolina Biotechnology Center
- N.C. Partnership for Children, Inc.
- Centennial Authority
- N.C. Health Insurance Risk Pool

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

**COMBINING STATEMENT OF NET POSITION  
NONMAJOR COMPONENT UNITS**

June 30, 2013

*(Dollars in Thousands)*

	State Education Assistance Authority	N.C. Housing Finance Agency	The Golden LEAF, Inc.	N.C. State Ports Authority	Rural Economic Development Center	N.C. Global TransPark Authority
<b>Assets</b>						
Cash and cash equivalents.....	\$ 55,237	\$ 2,723	\$ 327	\$ 4,261	\$ 153,530	\$ 8,013
Investments.....	—	3,109	896,458	11,802	5,701	—
Receivables, net.....	52,774	45,547	2	6,831	308	327
Due from component units.....	2,246	—	—	—	—	—
Due from primary government.....	—	62,564	—	—	—	—
Inventories.....	—	—	—	670	—	—
Prepaid items.....	70	—	90	1,273	70	—
Notes receivable, net.....	2,655,782	1,195,100	167	—	14,202	—
Deferred charges.....	9,290	12,344	—	722	—	—
Restricted/designated cash and cash equivalents.....	334,064	312,898	—	3,577	—	897
Restricted investments.....	1,238,326	61,624	—	—	2,195	—
Restricted due from primary government.....	—	—	—	2,599	—	—
Capital assets-nondepreciable.....	5,000	329	904	73,142	—	29,325
Capital assets-depreciable, net.....	322	3,913	2,833	217,133	3,157	218,563
Total Assets.....	<u>4,353,111</u>	<u>1,700,151</u>	<u>900,781</u>	<u>322,010</u>	<u>179,163</u>	<u>257,125</u>
<b>Deferred Outflows of Resources</b>						
Accumulated decrease in fair value of hedging derivatives..	—	5,181	—	129	—	—
Total Deferred Outflows of Resources.....	<u>—</u>	<u>5,181</u>	<u>—</u>	<u>129</u>	<u>—</u>	<u>—</u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities.....	21,874	4,692	65,978	3,302	812	565
Interest payable.....	3,077	21,366	—	1,217	—	88
Due to component units.....	—	—	20,472	—	—	—
Due to primary government.....	—	—	1,180	20	2	3
Unearned revenue.....	59,860	30,823	—	203	28,468	8
Advance from primary government.....	—	—	—	—	—	3,441
Deposits payable.....	—	3,456	—	—	—	—
Funds held for others.....	1,226,068	—	—	—	—	3
Hedging derivatives liability.....	—	5,181	—	129	—	—
Long-term liabilities:						
Due within one year.....	235,015	32,732	20	2,909	—	251
Due in more than one year.....	2,243,177	1,018,005	18	94,792	136	7,508
Total Liabilities.....	<u>3,789,071</u>	<u>1,116,255</u>	<u>87,668</u>	<u>102,572</u>	<u>29,418</u>	<u>11,867</u>
<b>Net Position</b>						
Net investment in capital assets.....	5,322	4,242	3,737	197,993	3,157	236,369
Restricted for:						
Expendable:						
Higher education.....	491,869	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—
Economic development.....	—	573,696	—	6,176	126,640	897
Unrestricted.....	66,849	11,139	809,376	15,398	19,948	7,992
Total Net Position.....	<u>\$ 564,040</u>	<u>\$ 589,077</u>	<u>\$ 813,113</u>	<u>\$ 219,567</u>	<u>\$ 149,745</u>	<u>\$ 245,258</u>

North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	N.C. Health Insurance Risk Pool	Total
\$ 3,828	\$ 24,812	\$ 1,422	\$ 2,483	\$ 5,137	\$ 261,773
—	520	1,355	—	17,017	935,962
2,265	1,241	984	2,516	11,584	124,379
—	—	—	—	—	2,246
—	—	—	—	—	62,564
—	—	—	—	—	670
39	106	110	2	425	2,185
—	2,812	—	—	—	3,868,063
—	—	—	—	—	22,356
72,243	—	23	13,088	—	736,790
—	—	—	5,834	—	1,307,979
—	—	—	—	—	2,599
18,063	—	—	16	—	126,779
69,194	11,735	124	120,732	2	647,708
<u>165,632</u>	<u>41,226</u>	<u>4,018</u>	<u>144,671</u>	<u>34,165</u>	<u>8,102,053</u>
—	—	—	—	—	5,310
—	—	—	—	—	5,310
1,822	10,995	689	1,329	21,609	133,667
—	—	—	—	—	25,748
—	—	—	—	—	20,472
—	—	—	—	—	1,205
—	—	879	387	2,359	122,987
—	—	—	—	—	3,441
62	—	—	—	—	3,518
—	—	66	—	19	1,226,156
—	—	—	—	—	5,310
—	23	37	4,351	—	275,338
—	34	91	28,333	—	3,392,094
<u>1,884</u>	<u>11,052</u>	<u>1,762</u>	<u>34,400</u>	<u>23,987</u>	<u>5,209,936</u>
87,257	11,678	124	88,064	2	637,945
—	—	—	—	—	491,869
—	—	19	—	—	19
72,221	973	—	17,826	—	798,429
4,270	17,523	2,113	4,381	10,176	969,165
<u>\$ 163,748</u>	<u>\$ 30,174</u>	<u>\$ 2,256</u>	<u>\$ 110,271</u>	<u>\$ 10,178</u>	<u>\$ 2,897,427</u>

## COMBINING STATEMENT OF ACTIVITIES NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2013

*(Dollars in Thousands)*

	State Education Assistance Authority	N.C. Housing Finance Agency	The Golden LEAF, Inc.	N.C. State Ports Authority	Rural Economic Development Center	N.C. Global TransPark Authority
Total expenses.....	\$ 283,077	\$ 396,511	\$ 44,672	\$ 47,833	\$ 55,194	\$ 12,924
Program revenues:						
Charges for services.....	64,766	351,524	5	44,295	—	2,070
Operating grants and contributions:						
State aid - program.....	110,615	84,592	—	—	25,808	—
Other operating grants and contributions...	95,509	—	99,082	104	16,861	68
Capital grants and contributions:						
State capital aid.....	—	—	—	15	—	—
Other capital grants and contributions.....	—	—	—	4,210	—	616
Net program (expense) revenue.....	<u>(12,187)</u>	<u>39,605</u>	<u>54,415</u>	<u>791</u>	<u>(12,525)</u>	<u>(10,170)</u>
Non-tax general revenues:						
State aid - general.....	—	1,206	46,136	—	1,276	1,000
Miscellaneous.....	—	—	—	—	429	—
Total non-tax general revenues.....	<u>—</u>	<u>1,206</u>	<u>46,136</u>	<u>—</u>	<u>1,705</u>	<u>1,000</u>
Change in net position.....	<u>(12,187)</u>	<u>40,811</u>	<u>100,551</u>	<u>791</u>	<u>(10,820)</u>	<u>(9,170)</u>
Net position — July 1, as restated.....	576,227	548,266	712,562	218,776	160,565	254,428
Net position — June 30.....	<u>\$ 564,040</u>	<u>\$ 589,077</u>	<u>\$ 813,113</u>	<u>\$ 219,567</u>	<u>\$ 149,745</u>	<u>\$ 245,258</u>

<u>North Carolina Railroad Company</u>	<u>North Carolina Biotechnology Center</u>	<u>N.C. Partnership for Children, Inc.</u>	<u>Centennial Authority</u>	<u>N.C. Health Insurance Risk Pool</u>	<u>Total</u>
\$ 15,469	\$ 21,749	\$ 99,363	\$ 12,402	\$ 122,159	\$ 1,111,353
16,303	270	—	4,690	72,040	555,963
—	—	91,783	—	2,580	315,378
892	1,236	2,315	7,461	28,711	252,239
2,005	—	—	—	—	2,020
—	—	—	2,029	—	6,855
<u>3,731</u>	<u>(20,243)</u>	<u>(5,265)</u>	<u>1,778</u>	<u>(18,828)</u>	<u>21,102</u>
—	17,201	4,829	—	712	72,360
1,094	102	179	66	—	1,870
<u>1,094</u>	<u>17,303</u>	<u>5,008</u>	<u>66</u>	<u>712</u>	<u>74,230</u>
4,825	(2,940)	(257)	1,844	(18,116)	95,332
158,923	33,114	2,513	108,427	28,294	2,802,095
<u>\$ 163,748</u>	<u>\$ 30,174</u>	<u>\$ 2,256</u>	<u>\$ 110,271</u>	<u>\$ 10,178</u>	<u>\$ 2,897,427</u>

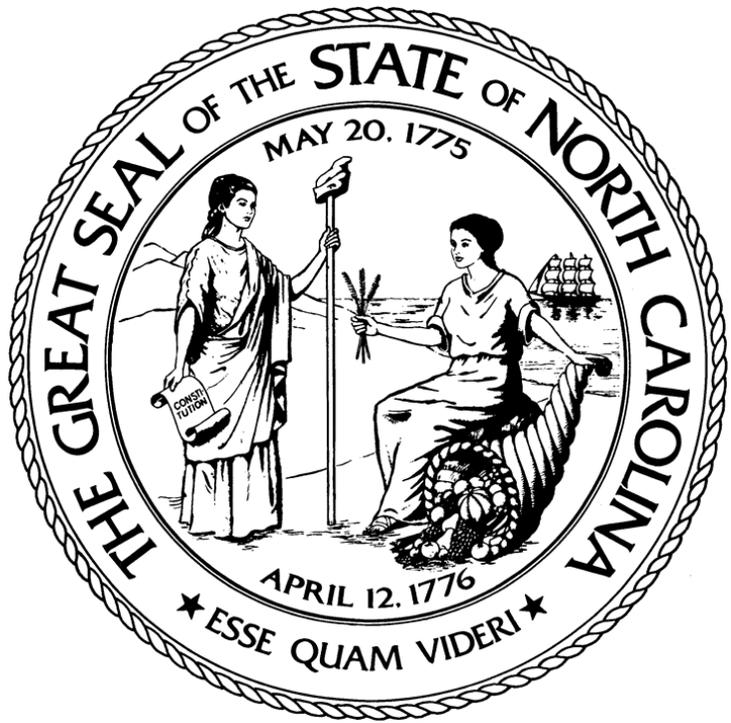
**STATEMENT OF CASH FLOWS**  
**MAJOR COMPONENT UNIT**

June 30, 2013

Exhibit G-3

*(Dollars in Thousands)*

	<b>State Health Plan</b>
<b>Cash Flows From Operating Activities:</b>	
Receipts from customers.....	\$ 2,895,137
Payments to suppliers.....	(157,233)
Payments to employees.....	(3,535)
Payments for prizes, benefits, and claims.....	(2,517,658)
Other payments.....	(155)
Net cash flows provided (used) by operating activities.....	<u>216,556</u>
<b>Cash Provided From (Used For)</b>	
<b>Noncapital Financing Activities:</b>	
Grant receipts .....	61,934
Principal payments on borrowing.....	(470)
Total cash provided from (used for) noncapital financing activities.....	<u>61,464</u>
<b>Cash Provided From (Used For)</b>	
<b>Investment Activities:</b>	
Investment earnings.....	3,117
Total cash provided from (used for) investment activities.....	<u>3,117</u>
Net increase (decrease) in cash and cash equivalents.....	281,137
Cash and cash equivalents at July 1.....	502,351
Cash and cash equivalents at June 30.....	<u>\$ 783,488</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>	
<b>Provided From (Used For) Operating Activities:</b>	
Operating income.....	\$ 250,597
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation.....	4
(Increases) decreases in assets:	
Receivables.....	(27,320)
Increases (decreases) in liabilities:	
Accounts payable and accrued liabilities.....	1,022
Due to primary government.....	3
Compensated absences.....	71
Unearned revenue.....	(9,092)
Medical claims payable.....	1,271
Total cash provided from (used for) operations.....	<u>\$ 216,556</u>



# STATISTICAL SECTION

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## Index to Statistical Section

This part of the State of North Carolina's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

**NET POSITION BY COMPONENT**

For the Fiscal Years 2004-2013

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Governmental Activities:</b>					
Net investment in capital assets.....	\$ 40,432,694	\$ 38,705,712	\$ 37,338,472	\$ 35,658,528	\$ 34,101,091
Restricted.....	792,966	703,781	730,021	704,715	714,014
Unrestricted.....	(3,032,171)	(3,594,082)	(3,792,148)	(4,160,273)	(4,427,748)
Total Governmental Activities Net Position [1].....	<u>\$ 38,193,489</u>	<u>\$ 35,815,411</u>	<u>\$ 34,276,345</u>	<u>\$ 32,202,970</u>	<u>\$ 30,387,357</u>
<b>Business-type Activities:</b>					
Net investment in capital assets.....	\$ 410,050	\$ 391,831	\$ 294,172	\$ 173,375	\$ 73,924
Restricted.....	995	1,468	3,131	1,081,220	1,003,613
Unrestricted.....	(232,327)	(661,669)	(766,888)	(1,626,663)	(201,590)
Total Business-type Activities Net Position.....	<u>\$ 178,718</u>	<u>\$ (268,370)</u>	<u>\$ (469,585)</u>	<u>\$ (372,068)</u>	<u>\$ 875,947</u>
<b>Primary Government:</b>					
Net investment in capital assets.....	\$ 40,842,744	\$ 39,097,543	\$ 37,632,644	\$ 35,831,903	\$ 34,175,015
Restricted.....	793,961	705,249	733,152	1,785,935	1,717,627
Unrestricted.....	(3,264,498)	(4,255,751)	(4,559,036)	(5,786,936)	(4,629,338)
Total Primary Government Net Position.....	<u>\$ 38,372,207</u>	<u>\$ 35,547,041</u>	<u>\$ 33,806,760</u>	<u>\$ 31,830,902</u>	<u>\$ 31,263,304</u>

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

Table 1

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 30,984,578	\$ 29,715,168	\$ 28,052,926	\$ 26,434,617	\$ 24,706,355
877,915	1,094,352	890,602	1,314,397	1,474,405
(1,856,140)	(993,478)	(1,310,486)	(3,839,972)	(3,199,354)
<u>\$ 30,006,353</u>	<u>\$ 29,816,042</u>	<u>\$ 27,633,042</u>	<u>\$ 23,909,042</u>	<u>\$ 22,981,406</u>
\$ 32,063	\$ 26,673	\$ 26,975	\$ 44,007	\$ 40,277
1,773,018	1,612,943	1,286,477	970,615	665,547
91,219	74,860	75,108	76,988	48,295
<u>\$ 1,896,300</u>	<u>\$ 1,714,476</u>	<u>\$ 1,388,560</u>	<u>\$ 1,091,610</u>	<u>\$ 754,119</u>
\$ 31,016,641	\$ 29,741,841	\$ 28,079,901	\$ 26,478,624	\$ 24,746,632
2,650,933	2,707,295	2,177,079	2,285,012	2,139,952
(1,764,921)	(918,618)	(1,235,378)	(3,762,984)	(3,151,059)
<u>\$ 31,902,653</u>	<u>\$ 31,530,518</u>	<u>\$ 29,021,602</u>	<u>\$ 25,000,652</u>	<u>\$ 23,735,525</u>

**CHANGES IN NET POSITION**

For the Fiscal Years 2004-2013

*(Dollars in Thousands)*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Expenses</b>					
Governmental Activities:					
General government.....	\$ 990,505	\$ 937,353	\$ 1,209,923	\$ 1,065,584	\$ 1,429,407
Primary and secondary education.....	9,830,897	9,760,909	10,024,775	9,830,183	10,079,691
Higher education.....	4,027,721	4,238,695	4,350,475	4,232,266	3,951,862
Health and human services.....	18,258,538	17,752,493	16,859,438	16,762,910	16,172,213
Economic development.....	595,494	667,106	744,703	916,224	636,431
Environment and natural resources.....	493,775	470,965	596,227	526,178	717,666
Public safety, corrections, and regulation.....	2,945,856	2,976,448	2,729,418	2,616,888	2,741,308
Transportation.....	2,491,032	2,400,599	2,177,062	1,998,234	138,007
Agriculture.....	187,718	188,985	114,275	118,847	110,268
Interest on long-term debt.....	233,325	282,542	306,696	281,058	289,211
Total Governmental Activities Expenses.....	<u>40,054,861</u>	<u>39,676,095</u>	<u>39,112,992</u>	<u>38,348,372</u>	<u>36,266,064</u>
Business-type Activities:					
Unemployment Compensation.....	2,496,445	3,283,900	4,420,762	5,568,561	3,255,448
N.C. State Lottery..... [2]	1,215,944	1,141,941	1,028,536	994,168	877,403
EPA Revolving Loan.....	23,711	14,026	42,897	30,940	7,868
N.C. Turnpike Authority..... [5]	77,899	17,565	4,940	4,990	3,847
Regulatory programs..... [3]	76,455	69,980	80,454	67,330	37,644
Insurance programs.....	17,591	38,701	36,885	13,118	14,986
North Carolina State Fair.....	13,465	13,030	13,595	12,794	13,803
Other business-type activities.....	13,400	12,084	9,148	9,563	7,324
Total Business-type Activities Expenses.....	<u>3,934,910</u>	<u>4,591,227</u>	<u>5,637,217</u>	<u>6,701,464</u>	<u>4,218,323</u>
Total Primary Government Expenses.....	<u>\$ 43,989,771</u>	<u>\$ 44,267,322</u>	<u>\$ 44,750,209</u>	<u>\$ 45,049,836</u>	<u>\$ 40,484,387</u>
<b>Program Revenues</b>					
Governmental Activities:					
Charges for Services:					
Transportation.....	\$ 706,231	\$ 685,596	\$ 709,064	\$ 705,025	\$ 740,353
Public safety, corrections, and regulation.....	604,447	594,377	540,280	511,912	510,159
General government.....	228,054	218,011	195,286	356,602	329,507
Other activities.....	662,172	598,279	631,464	502,204	535,100
Operating grants and contributions.....	15,759,693	15,605,227	15,632,256	15,837,802	14,005,529
Capital grants and contributions.....	1,010,889	977,961	1,198,549	711,433	1,035,742
Total Governmental Activities Program Revenues.....	<u>18,971,486</u>	<u>18,679,451</u>	<u>18,906,899</u>	<u>18,624,978</u>	<u>17,156,390</u>
Business-type Activities:					
Charges for services:					
Unemployment Compensation.....	1,535,068	1,473,576	1,294,104	1,045,288	1,076,294
N.C. State Lottery..... [2]	1,695,009	1,601,837	1,464,639	1,424,458	1,288,102
EPA Revolving Loan.....	19,490	23,366	20,388	19,874	17,370
N.C. Turnpike Authority..... [5]	13,499	664	—	—	—
Regulatory programs..... [3]	78,561	70,732	80,008	71,355	33,982
Insurance programs.....	19,275	17,547	16,046	16,320	17,208
North Carolina State Fair.....	14,506	14,470	14,915	12,639	12,520
Other business-type activities.....	10,681	10,578	10,771	8,678	8,365
Operating grants and contributions.....	1,423,526	1,966,023	2,998,116	3,251,109	1,110,849
Capital grants and contributions.....	21,109	15,436	11,687	7,771	41,398
Total Business-type Activities Program Revenues.....	<u>4,830,724</u>	<u>5,194,229</u>	<u>5,910,674</u>	<u>5,857,492</u>	<u>3,606,088</u>
Total Primary Government Program Revenues.....	<u>\$ 23,802,210</u>	<u>\$ 23,873,680</u>	<u>\$ 24,817,573</u>	<u>\$ 24,482,470</u>	<u>\$ 20,762,478</u>
<b>Net (Expense) Revenue</b>					
Governmental Activities.....	\$ (21,083,375)	\$ (20,996,644)	\$ (20,206,093)	\$ (19,723,394)	\$ (19,109,674)
Business-type Activities.....	895,814	603,002	273,457	(843,972)	(612,235)
Total Primary Government Net Expense.....	<u>\$ (20,187,561)</u>	<u>\$ (20,393,642)</u>	<u>\$ (19,932,636)</u>	<u>\$ (20,567,366)</u>	<u>\$ (19,721,909)</u>

Table 2

2008	2007	2006	2005	2004
\$ 1,232,088	\$ 1,264,132	\$ 1,039,513	\$ 917,209	\$ 807,248
10,631,920	9,126,169	8,215,445	7,699,208	7,223,766
4,207,410	4,500,010	3,472,024	3,576,384	3,140,794
14,951,585	14,117,426	13,491,119	13,375,794	11,729,904
746,471	624,106	647,434	625,561	536,055
753,909	672,726	676,049	570,241	599,575
2,627,007	2,465,974	2,304,900	2,125,385	2,093,404
1,941,207	2,019,942	1,781,865	1,795,490	1,870,578
119,297	88,970	112,467	81,628	82,394
304,020	273,123	264,287	249,433	191,228
<u>37,514,914</u>	<u>35,152,578</u>	<u>32,005,103</u>	<u>31,016,333</u>	<u>28,274,946</u>
1,002,866	864,981	849,945	824,934	1,389,266
712,718	559,373	153,125	—	—
12,454	14,228	11,414	7,170	5,342
—	—	—	—	—
34,791	31,144	28,526	25,974	—
17,556	23,892	16,051	13,580	25,237
12,828	11,433	10,497	10,759	8,956
6,364	5,686	10,255	9,753	8,821
<u>1,799,577</u>	<u>1,510,737</u>	<u>1,079,813</u>	<u>892,170</u>	<u>1,437,622</u>
<u>\$ 39,314,491</u>	<u>\$ 36,663,315</u>	<u>\$ 33,084,916</u>	<u>\$ 31,908,503</u>	<u>\$ 29,712,568</u>
\$ 777,059	\$ 782,405	\$ 725,311	\$ 588,357	\$ 553,229
501,837	429,824	411,188	378,059	371,625
365,920	480,378	339,053	202,514	211,648
536,419	467,769	512,449	503,552	368,588
12,301,356	12,026,012	11,503,844	11,380,864	10,108,124
826,646	758,910	914,090	1,011,451	884,345
<u>15,309,237</u>	<u>14,945,298</u>	<u>14,405,935</u>	<u>14,064,797</u>	<u>12,497,559</u>
1,091,856	1,099,959	1,101,357	1,062,549	878,722
1,053,131	866,195	216,906	—	—
17,297	16,400	15,237	14,078	13,876
—	—	—	—	—
37,163	29,347	33,550	32,223	—
16,991	13,901	14,860	15,993	13,259
15,029	11,617	12,581	12,227	11,961
6,498	5,887	7,973	8,906	9,073
83,695	106,000	64,085	54,760	305,053
6,589	142	258	452	892
<u>2,328,249</u>	<u>2,149,448</u>	<u>1,466,807</u>	<u>1,201,188</u>	<u>1,232,836</u>
<u>\$ 17,637,486</u>	<u>\$ 17,094,746</u>	<u>\$ 15,872,742</u>	<u>\$ 15,265,985</u>	<u>\$ 13,730,395</u>
\$ (22,205,677)	\$ (20,207,280)	\$ (17,599,168)	\$ (16,951,536)	\$ (15,777,387)
528,672	638,711	386,994	309,018	(204,786)
<u>\$ (21,677,005)</u>	<u>\$ (19,568,569)</u>	<u>\$ (17,212,174)</u>	<u>\$ (16,642,518)</u>	<u>\$ (15,982,173)</u>

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

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

[3] Prior to 2005 Regulatory programs were classified as Special Revenue Funds.

[4] 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.

[5] 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 2004-2013

*(Dollars in Thousands)*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>General Revenues and Other Changes in Net Position</b>					
Governmental Activities:					
Taxes:					
Individual income tax..... [1]	\$ 11,113,597	\$ 10,459,307	\$ 10,020,535	\$ 9,345,441	\$ 8,661,565
Corporate income tax.....	1,194,850	1,233,989	1,132,931	1,252,800	997,206
Sales and use tax.....	5,556,484	5,530,046	6,172,377	5,916,119	4,911,656
Gasoline tax.....	1,889,439	1,892,163	1,675,476	1,557,430	1,523,496
Franchise tax.....	849,850	804,973	794,091	904,651	799,113
Highway use tax.....	555,581	506,211	469,811	439,506	440,749
Insurance tax.....	540,844	479,755	501,032	506,990	500,438
Beverage tax.....	330,918	322,190	311,809	295,383	263,553
Inheritance tax.....	113,721	57,839	24,184	71,731	103,811
Tobacco products tax..... [4]	287,340	293,597	291,699	278,406	242,071
Other taxes.....	305,726	294,516	301,217	321,945	316,819
Tobacco settlement.....	213,078	146,135	131,318	145,539	175,838
Federal grants not restricted to specific programs.....	—	—	—	—	—
Unrestricted investment earnings.....	13,621	(56,055)	32,980	28,645	66,863
Miscellaneous.....	44,837	41,960	45,014	37,253	62,799
Contributions to permanent funds.....	2,834	3,297	3,188	3,101	3,248
Transfers.....	448,733	401,740	371,424	434,067	422,399
Total Governmental Activities.....	<u>23,461,453</u>	<u>22,411,663</u>	<u>22,279,086</u>	<u>21,539,007</u>	<u>19,491,624</u>
Business-type Activities:					
Miscellaneous.....	7	—	3	—	—
Transfers.....	(448,733)	(401,740)	(371,424)	(434,067)	(422,399)
Total Business-type Activities.....	<u>(448,726)</u>	<u>(401,740)</u>	<u>(371,421)</u>	<u>(434,067)</u>	<u>(422,399)</u>
Total Primary Government.....	<u>\$ 23,012,727</u>	<u>\$ 22,009,923</u>	<u>\$ 21,907,665</u>	<u>\$ 21,104,940</u>	<u>\$ 19,069,225</u>
<b>Change in Net Position</b>					
Governmental Activities.....	\$ 2,378,078	\$ 1,415,019	\$ 2,072,993	\$ 1,815,613	\$ 381,950
Business-type Activities.....	447,088	201,262	(97,964)	(1,278,039)	(1,034,634)
Total Primary Government.....	<u>\$ 2,825,166</u>	<u>\$ 1,616,281</u>	<u>\$ 1,975,029</u>	<u>\$ 537,574</u>	<u>\$ (652,684)</u>

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 10,676,156	\$ 10,739,562	\$ 9,336,745	\$ 8,244,275	\$ 7,407,455
1,357,670	1,466,148	1,306,193	1,143,458	760,180
5,159,453	5,108,456	5,033,040	4,621,098	4,293,040
1,579,847	1,601,764	1,514,626	1,354,699	1,276,627
738,741	671,151	628,029	613,033	560,708
566,132	607,511	577,237	580,118	578,346
505,936	487,081	442,297	442,228	432,975
258,193	245,990	233,315	220,782	213,271
158,178	162,746	133,158	135,107	128,352
249,664	241,687	—	—	—
339,109	330,888	482,552	306,991	313,985
168,583	144,075	140,969	148,800	147,224
—	—	—	—	136,859
238,239	211,663	123,170	78,546	77,225
49,345	47,015	37,248	53,488	62,601
3,894	3,928	4,674	2,288	2,068
346,848	312,810	67,978	(11,620)	(302)
<u>22,395,988</u>	<u>22,382,475</u>	<u>20,061,231</u>	<u>17,933,291</u>	<u>16,390,614</u>
—	15	4	79	3
(346,848)	(312,810)	(67,978)	11,620	302
<u>(346,848)</u>	<u>(312,795)</u>	<u>(67,974)</u>	<u>11,699</u>	<u>305</u>
<u>\$ 22,049,140</u>	<u>\$ 22,069,680</u>	<u>\$ 19,993,257</u>	<u>\$ 17,944,990</u>	<u>\$ 16,390,919</u>
\$ 190,311	\$ 2,175,195	\$ 2,462,063	\$ 981,755	\$ 613,227
181,824	325,916	319,020	320,717	(204,481)
<u>\$ 372,135</u>	<u>\$ 2,501,111</u>	<u>\$ 2,781,083</u>	<u>\$ 1,302,472</u>	<u>\$ 408,746</u>

**FUND BALANCES OF GOVERNMENTAL FUNDS**

For the Fiscal Years 2004-2013

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u> [2]	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>General Fund</b>						
Reserved.....	\$ —	\$ —	\$ —	\$ 224,358	\$ 189,288	\$ 172,909
Unreserved.....	—	—	—	(338,738)	(966,861)	1,505,230
Nonspendable.....	75,153	81,395	93,482	—	—	—
Restricted.....	130,411	140,032	81,815	—	—	—
Committed.....	884,593	889,584	1,115,156	—	—	—
Assigned.....	30,957	—	—	—	—	—
Unassigned.....	158,821	(62,042)	(107,348)	—	—	—
Total General Fund [1].....	<u>\$ 1,279,935</u>	<u>\$ 1,048,969</u>	<u>\$ 1,183,105</u>	<u>\$ (114,380)</u>	<u>\$ (777,573)</u>	<u>\$ 1,678,139</u>
<b>All Other Governmental Funds</b>						
Reserved.....	\$ —	\$ —	\$ —	\$ 994,418	\$ 1,209,650	\$ 1,182,723
Unreserved, reported in:						
Special revenue funds.....	—	—	—	2,321,665	2,337,370	2,517,529
Capital projects funds.....	—	—	—	10,311	(2,738)	280,939
Permanent funds.....	—	—	—	7,141	1,907	2,312
Nonspendable.....	210,307	218,674	198,830	—	—	—
Restricted.....	863,318	807,205	896,515	—	—	—
Committed.....	1,435,133	1,402,286	1,343,103	—	—	—
Assigned.....	778	496	—	—	—	—
Unassigned.....	—	(1,311)	(1,627)	—	—	—
Total all other governmental funds....	<u>\$ 2,509,536</u>	<u>\$ 2,427,350</u>	<u>\$ 2,436,821</u>	<u>\$ 3,333,535</u>	<u>\$ 3,546,189</u>	<u>\$ 3,983,503</u>

Table 3

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 208,932	\$ 155,948	\$ 172,633	\$ 197,448
2,397,786	1,810,452	(251,442)	(393,735)
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ 2,606,718</u>	<u>\$ 1,966,400</u>	<u>\$ (78,809)</u>	<u>\$ (196,287)</u>
\$ 1,014,757	\$ 951,701	\$ 911,966	\$ 847,174
2,524,643	2,204,146	2,170,533	2,260,374
224,991	115,060	44,237	110,395
1,598	1,518	2,645	2,380
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ 3,765,989</u>	<u>\$ 3,272,425</u>	<u>\$ 3,129,381</u>	<u>\$ 3,220,323</u>

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

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

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**

For the Fiscal Years 2004-2013

*(Dollars in Thousands)*

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b><u>Revenues</u></b>					
Taxes.....	[1] \$ 22,774,037	\$ 21,816,945	\$ 21,689,379	\$ 20,866,244	\$ 18,752,674
Federal funds.....	16,153,631	15,626,696	14,215,501	13,688,504	13,387,611
Local funds.....	186,327	188,405	186,944	218,162	349,303
Investment earnings.....	41,257	50,612	100,104	198,633	95,288
Interest earnings on loans.....	3,684	3,347	4,104	4,543	4,989
Sales and services.....	304,179	292,705	276,663	263,010	279,025
Rental and lease of property.....	27,559	26,574	25,165	22,122	25,398
Fees, licenses and fines.....	1,574,727	1,547,973	1,496,606	1,553,923	1,602,471
Tobacco settlement.....	211,162	140,979	138,256	146,358	175,187
Contributions, gifts, and grants.....	74,857	65,954	109,170	85,868	137,537
Funds escheated.....	112,671	68,207	111,481	70,381	27,399
Federal funds for fiscal relief.....	—	—	—	—	—
Federal recovery funds.....	273,192	658,570	2,265,393	2,391,851	1,164,674
Miscellaneous.....	184,763	146,204	158,945	164,685	184,839
Total revenues.....	<u>41,922,046</u>	<u>40,633,171</u>	<u>40,777,711</u>	<u>39,674,284</u>	<u>36,186,395</u>
<b><u>Expenditures</u></b>					
Current:					
General government.....	945,702	901,654	1,000,101	962,187	1,299,637
Primary and secondary education.....	9,818,572	9,738,102	10,000,438	9,850,462	10,111,797
Higher education.....	4,027,770	4,237,649	4,350,683	4,225,806	3,951,689
Health and human services.....	18,416,229	17,854,993	16,914,978	16,816,099	16,222,160
Economic development.....	571,037	667,057	741,447	915,038	634,369
Environment and natural resources.....	455,894	429,882	603,112	554,628	699,273
Public safety, corrections, and regulation.....	2,899,287	2,937,742	2,751,665	2,659,683	2,681,833
Transportation.....	3,992,200	3,801,196	3,660,069	3,253,258	3,266,494
Agriculture.....	171,196	181,387	113,153	112,902	111,506
Capital outlay.....	182,107	231,688	364,121	341,058	369,326
Debt service:					
Principal retirement.....	[2] 1,261,685	514,195	1,026,602	498,563	474,323
Interest and fees.....	[2] 461,739	346,540	393,432	322,287	326,287
Debt issuance costs.....	6,605	7,074	4,178	1,310	3,031
Total expenditures.....	<u>43,210,023</u>	<u>41,849,159</u>	<u>41,923,979</u>	<u>40,513,281</u>	<u>40,151,725</u>
Excess revenues over (under) expenditures.....	<u>(1,287,977)</u>	<u>(1,215,988)</u>	<u>(1,146,268)</u>	<u>(838,997)</u>	<u>(3,965,330)</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Bonds issued.....	—	—	—	487,700	—
Special Indebtedness issued.....	250,000	400,000	500,000	—	600,000
GARVEE bonds issued.....	—	179,540	—	242,250	—
Refunding bonds issued.....	1,320,970	367,350	774,745	371,920	—
Other debt issued.....	9,380	15,825	—	9,098	1,533
Premium on debt issued.....	284,428	131,892	191,035	140,876	31,371
Payments to refunded bond escrow agent.....	(748,022)	(428,830)	(370,982)	(435,870)	—
Capital leases.....	—	—	—	—	—
Sale of capital assets.....	12,939	12,889	12,118	11,994	13,079
Insurance recoveries.....	9,925	16,444	7,319	7,414	8,568
Transfers in.....	1,112,704	1,115,417	1,131,568	2,330,816	2,727,741
Transfers out.....	(651,195)	(715,002)	(698,321)	(1,876,502)	(2,309,101)
Total other financing sources (uses).....	<u>1,601,129</u>	<u>1,095,525</u>	<u>1,547,482</u>	<u>1,289,696</u>	<u>1,073,191</u>
Net change in fund balances.....	<u>\$ 313,152</u>	<u>\$ (120,463)</u>	<u>\$ 401,214</u>	<u>\$ 450,699</u>	<u>\$ (2,892,139)</u>
Debt service as a percentage of noncapital expenditures..	4.24%	2.18%	3.61%	2.14%	2.12%

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

Table 4

2008	2007	2006	2005	2004
\$ 21,583,521	\$ 21,660,719	\$ 19,848,465	\$ 17,618,730	\$ 15,961,629
12,096,354	11,519,927	11,315,722	11,287,454	10,089,075
527,325	725,542	610,501	767,067	657,954
620,829	669,297	384,014	292,406	160,846
5,156	5,639	5,405	5,664	5,801
285,848	264,081	260,538	235,894	210,161
27,737	28,722	25,982	38,585	27,848
1,593,893	1,525,928	1,405,569	1,218,431	1,035,303
159,954	142,825	136,453	148,641	146,452
140,575	155,958	118,936	108,450	150,731
74,743	214,500	108,075	49,684	55,330
—	—	—	—	136,859
N/A	N/A	N/A	N/A	N/A
167,449	122,161	161,052	146,529	196,937
<u>37,283,384</u>	<u>37,035,299</u>	<u>34,380,712</u>	<u>31,917,535</u>	<u>28,834,926</u>
1,167,090	1,102,512	963,899	754,175	711,327
9,879,602	9,087,905	8,211,998	7,713,265	7,223,143
4,207,164	4,405,767	3,471,604	3,576,766	3,140,698
14,918,068	14,203,474	13,318,071	13,376,364	11,722,721
747,728	623,038	643,510	622,000	532,674
689,119	662,296	626,442	579,853	581,726
2,629,567	2,467,763	2,291,596	2,123,837	2,073,338
3,473,718	3,296,301	3,219,549	3,511,161	3,389,042
117,380	92,062	110,626	82,508	81,488
346,764	451,716	270,882	313,932	385,506
427,550	417,807	367,946	303,818	235,792
329,813	306,410	288,088	241,936	185,350
2,141	2,456	1,645	7,454	4,830
<u>38,935,704</u>	<u>37,119,507</u>	<u>33,785,856</u>	<u>33,207,069</u>	<u>30,267,635</u>
<u>(1,652,320)</u>	<u>(84,208)</u>	<u>594,856</u>	<u>(1,289,534)</u>	<u>(1,432,709)</u>
—	502,745	370,000	1,075,140	1,377,560
275,000	300,000	—	188,385	283,955
287,565	—	—	—	—
—	84,385	—	959,665	326,710
7,425	2,897	30,688	12,686	17,597
21,843	40,867	16,338	210,116	137,256
—	(85,519)	—	(1,059,663)	(346,915)
—	799	26,745	212	—
29,570	15,898	20,131	14,674	10,105
7,317	5,700	6,537	—	—
2,567,141	2,340,937	1,784,222	1,754,448	1,566,520
<u>(2,223,438)</u>	<u>(2,030,162)</u>	<u>(1,718,585)</u>	<u>(1,760,801)</u>	<u>(1,557,208)</u>
<u>972,423</u>	<u>1,178,547</u>	<u>536,076</u>	<u>1,394,862</u>	<u>1,815,580</u>
<u>\$ (679,897)</u>	<u>\$ 1,094,339</u>	<u>\$ 1,130,932</u>	<u>\$ 105,328</u>	<u>\$ 382,871</u>
2.07%	2.06%	2.08%	1.78%	1.51%

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

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

N/A = Data not available

**SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND**

For the Fiscal Years 2004-2013

*(Dollars in Thousands)*

		<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>TAX REVENUES</b>				[3]		
Individual income tax.....	[1]	\$ 11,111,462	\$ 10,457,217	\$ 10,018,039	\$ 9,343,303	\$ 8,658,635
Corporate income tax.....		1,224,702	1,194,865	1,139,584	1,245,515	941,509
Sales and use tax.....		5,554,065	5,516,304	6,133,915	5,871,166	4,872,318
Franchise tax.....		857,867	797,596	793,094	904,959	797,079
Beverage tax.....		330,711	322,194	311,814	295,349	263,553
Insurance tax.....		521,510	463,574	485,989	495,059	483,756
Piped natural gas.....		47,145	45,328	54,868	59,693	59,490
Inheritance tax.....		111,510	58,238	23,880	71,901	104,266
Tobacco products tax.....		283,629	293,286	290,743	278,296	242,071
License tax.....		44,378	45,577	48,924	41,338	37,716
Gift tax.....		829	181	2,973	12,036	12,294
Manufacturing tax.....		36,447	36,321	33,013	32,125	32,044
Other taxes.....		27,998	25,118	26,822	23,943	21,625
<b>Total tax revenues.....</b>		<b>20,152,253</b>	<b>19,255,799</b>	<b>19,363,658</b>	<b>18,674,683</b>	<b>16,526,356</b>
<b>NON-TAX REVENUES</b>						
<b>Federal Funds:</b>						
Departmental revenues.....		14,878,307	14,433,383	12,828,192	12,825,403	11,970,322
Federal funds for fiscal relief.....		—	—	—	—	—
Federal recovery funds.....		182,756	421,815	1,791,264	1,961,425	1,155,174
		<b>15,061,063</b>	<b>14,855,198</b>	<b>14,619,456</b>	<b>14,786,828</b>	<b>13,125,496</b>
<b>Local Funds:</b>						
Departmental revenues.....		158,413	164,679	149,545	153,234	304,270
<b>Investment Earnings:</b>						
Income from General Fund investments.....		12,991	13,533	30,925	36,877	103,703
Income from securities lending.....	[2]	9,125	(1,590)	9,527	49,733	(46,275)
Departmental revenues.....		2,597	4,014	7,295	3,264	4,788
Other investment earnings.....		—	—	—	—	3
		<b>24,713</b>	<b>15,957</b>	<b>47,747</b>	<b>89,874</b>	<b>62,219</b>
<b>Interest Earnings on Loans:</b>						
Departmental revenues.....		2,883	2,445	3,133	202	261
<b>Sales and Services:</b>						
Departmental revenues.....		140,603	137,527	130,166	97,323	104,925
Other non-tax revenues.....		80	92	112	116	143
		<b>140,683</b>	<b>137,619</b>	<b>130,278</b>	<b>97,439</b>	<b>105,068</b>
<b>Rental and Lease of Property:</b>						
Proceeds from rental and lease of property.....		94	85	88	67	83
Departmental revenues.....		10,210	10,348	11,523	8,810	8,773
		<b>10,304</b>	<b>10,433</b>	<b>11,611</b>	<b>8,877</b>	<b>8,856</b>
<b>Fees, Licenses and Fines:</b>						
Court fines and fees.....		250,789	258,968	225,710	216,772	190,995
Secretary of State service fees.....		89,994	85,062	76,451	81,221	64,202
Banking and investment fees.....		6,107	6,690	6,092	5,955	5,709
Self insurer fees (Industrial Commission).....		15,138	15,169	15,176	15,497	15,230
Probation supervision fees.....		15,566	16,134	15,000	11,892	16,758
Department of Insurance fees.....		39,224	39,100	38,174	38,271	43,965
DWI service and restoration fees.....		8,590	8,946	8,928	7,638	9,310
Departmental revenues.....		288,922	252,398	217,191	212,260	184,952
Fines from tax collection activity.....		—	—	—	78,090	85,135
Other non-tax revenues.....		9,696	8,086	4,750	6,912	5,340
		<b>724,026</b>	<b>690,553</b>	<b>607,472</b>	<b>674,508</b>	<b>621,596</b>
<b>Tobacco settlement:</b>						
Tobacco settlement.....		211,162	140,979	138,256	146,358	175,187
<b>Contributions, Gifts and Grants:</b>						
Departmental revenues.....		21,487	20,452	22,591	20,391	16,179
Other non-tax revenues.....		—	—	—	—	—
		<b>21,487</b>	<b>20,452</b>	<b>22,591</b>	<b>20,391</b>	<b>16,179</b>
<b>Miscellaneous:</b>						
Local sales and use tax administration.....		8,942	12,177	13,692	14,603	15,613
Sales tax refunds.....		2,826	3,555	2,432	2,134	1,906
Departmental revenues.....		104,432	103,317	101,336	117,511	119,107
Other non-tax revenue.....		9,865	306	4,871	6,517	22,220
		<b>126,065</b>	<b>119,355</b>	<b>122,331</b>	<b>140,765</b>	<b>158,846</b>
<b>Total non-tax revenues.....</b>		<b>16,480,799</b>	<b>16,157,670</b>	<b>15,852,420</b>	<b>16,118,476</b>	<b>14,577,978</b>
<b>Total Revenues.....</b>	[1,2]	<b>\$ 36,633,052</b>	<b>\$ 35,413,469</b>	<b>\$ 35,216,078</b>	<b>\$ 34,793,159</b>	<b>\$ 31,104,334</b>

Table 5

2008	2007	2006	2005	2004
\$ 10,672,362	\$ 10,737,494	\$ 9,493,714	\$ 8,206,026	\$ 7,404,956
1,265,654	1,357,454	1,208,356	1,065,374	699,441
5,125,674	5,078,997	5,007,567	4,587,542	4,268,292
739,947	669,235	628,665	613,093	560,502
257,393	245,430	232,987	220,782	213,271
492,699	475,546	431,729	431,664	423,405
58,413	61,345	58,397	60,739	64,327
158,789	161,604	133,248	134,419	129,579
249,664	241,687	187,566	43,361	44,126
55,293	48,137	46,035	44,219	42,418
17,361	15,669	16,251	18,924	16,615
37,661	39,132	11,992	—	—
16,623	16,640	15,579	14,114	13,571
<u>19,147,533</u>	<u>19,148,370</u>	<u>17,472,086</u>	<u>15,440,257</u>	<u>13,880,503</u>
10,843,765	10,312,318	9,905,879	9,755,067	8,769,925
—	—	—	—	136,859
—	—	—	—	—
<u>10,843,765</u>	<u>10,312,318</u>	<u>9,905,879</u>	<u>9,755,067</u>	<u>8,906,784</u>
486,536	665,532	574,300	731,368	636,900
234,478	208,955	122,405	75,669	76,415
143,487	216,072	133,098	48,463	21,305
7,829	8,059	7,357	8,539	2,613
39	66	44	14	3
<u>385,833</u>	<u>433,152</u>	<u>262,904</u>	<u>132,685</u>	<u>100,336</u>
113	399	—	—	—
102,307	94,664	94,994	85,592	76,010
138	171	184	168	182
<u>102,445</u>	<u>94,835</u>	<u>95,178</u>	<u>85,760</u>	<u>76,192</u>
98	41	57	4,304	102
7,908	8,392	7,885	7,072	6,620
<u>8,006</u>	<u>8,433</u>	<u>7,942</u>	<u>11,376</u>	<u>6,722</u>
198,520	159,583	158,646	142,798	138,878
62,035	58,046	55,976	46,975	40,638
5,862	5,466	5,386	5,165	4,758
14,791	14,292	14,269	14,128	13,777
16,892	16,629	16,471	16,476	16,748
42,872	27,991	25,990	24,526	25,147
9,441	8,782	8,420	8,398	8,709
164,813	160,006	157,024	200,452	62,578
93,181	69,758	53,663	—	—
6,583	4,944	5,173	3,818	4,388
<u>614,990</u>	<u>525,497</u>	<u>501,018</u>	<u>462,736</u>	<u>315,621</u>
159,954	142,825	136,453	148,641	146,452
16,054	17,207	17,632	34,375	50,140
—	—	1	105	234
<u>16,054</u>	<u>17,207</u>	<u>17,633</u>	<u>34,480</u>	<u>50,374</u>
16,982	16,979	14,356	13,932	13,989
3,303	4,124	3,014	10,253	14,456
106,517	56,733	113,171	84,927	123,852
1,566	1,508	1,302	1,253	2,083
<u>128,368</u>	<u>79,344</u>	<u>131,843</u>	<u>110,365</u>	<u>154,380</u>
<u>12,746,064</u>	<u>12,279,542</u>	<u>11,633,150</u>	<u>11,472,478</u>	<u>10,393,761</u>
<u>\$ 31,893,597</u>	<u>\$ 31,427,912</u>	<u>\$ 29,105,236</u>	<u>\$ 26,912,735</u>	<u>\$ 24,274,264</u>

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

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

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

**PERSONAL INCOME BY INDUSTRY**

For the Fiscal Years 2002-2011

*(Dollars in thousands)*

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Manufacturing.....	\$ 31,116,311	\$ 29,904,102	\$ 29,859,471	\$ 33,393,211	\$ 33,710,683
Retail trade.....	15,942,736	15,512,717	15,164,703	15,921,230	16,531,753
Services.....	85,814,387	81,575,473	78,395,288	80,130,957	76,626,731
Agricultural, forestry, fishing, etc.....	787,406	750,377	643,173	625,404	659,840
Government.....	55,239,334	53,971,934	52,152,751	50,042,028	46,472,640
Construction.....	13,131,495	12,907,892	13,363,615	15,975,319	17,142,439
Wholesale trade.....	13,052,713	12,347,703	11,959,868	12,896,026	12,996,538
Transportation and warehousing.....	6,779,116	6,483,001	6,433,883	6,846,537	6,944,803
Finance and insurance.....	17,255,494	16,256,254	14,414,380	15,663,713	14,669,551
Mining.....	206,059	189,542	244,521	309,994	358,233
Utilities.....	1,529,406	1,502,097	1,406,526	1,509,822	1,348,556
Information.....	5,986,531	5,655,898	5,678,765	5,916,880	5,814,873
Real estate and rental and leasing.....	3,327,797	3,238,520	3,133,951	3,395,003	3,368,563
Other.....	97,736,048	90,530,016	88,444,496	90,106,679	80,310,758
<b>Total.....</b>	<b><u>\$ 347,904,833</u></b>	<b><u>\$ 330,825,526</u></b>	<b><u>\$ 321,295,391</u></b>	<b><u>\$ 332,732,803</u></b>	<b><u>\$ 316,955,961</u></b>
Average effective rate [1]:					
Individual income tax.....	2.9%	2.8%	2.7%	3.2%	3.4%

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

Source: Bureau of Economic Analysis (Data for 2012 &amp; 2013 is not available.)

Table 6

<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
\$ 32,935,416	\$ 32,568,557	\$ 32,396,449	\$ 32,161,055	\$ 32,375,674
15,824,997	15,247,734	14,405,203	13,967,967	13,516,856
71,395,713	65,206,678	61,288,110	56,777,852	54,700,974
653,293	603,690	595,838	552,685	543,807
42,936,344	40,511,663	37,711,849	35,272,127	32,923,320
16,676,066	14,995,919	13,783,354	12,829,904	12,664,406
12,139,388	11,243,020	10,558,552	9,683,219	9,253,121
6,826,584	6,660,176	6,447,742	5,952,517	5,738,970
14,383,089	12,593,724	11,515,594	10,916,275	10,414,855
345,095	294,567	254,654	221,600	216,001
1,360,334	1,265,031	1,310,832	1,239,668	1,218,858
5,626,640	5,418,024	5,322,364	5,159,965	5,034,451
3,838,434	3,829,563	3,714,865	3,653,635	3,498,745
72,655,030	67,305,137	61,392,684	55,307,537	54,598,193
<b>\$ 297,596,423</b>	<b>\$ 277,743,483</b>	<b>\$ 260,698,090</b>	<b>\$ 243,696,006</b>	<b>\$ 236,698,231</b>
3.2%	3.0%	2.8%	2.9%	3.1%

**INDIVIDUAL INCOME TAX FILERS AND LIABILITY - CALENDAR YEARS 2002 AND 2011**  
**INDIVIDUAL INCOME TAX RATES- CALENDAR YEARS 2003-2012**

North Carolina Taxable Income	Calendar Year 2011				Calendar Year 2002			
	Number of Returns	% of Total	Tax Liability	% of Total	Number of Returns	% of Total	Tax Liability	% of Total
0 to \$15,000.....	2,136,024	50.6%	\$ 408,304,692	4.3%	1,888,092	52.3%	\$ 508,319,508	7.3%
\$15,001 to \$25,000.....	540,326	12.8%	601,447,581	6.3%	510,015	14.2%	622,770,865	8.9%
\$25,001 to \$50,000.....	740,954	17.5%	1,647,840,014	17.3%	681,296	18.9%	1,577,580,189	22.7%
\$50,001 to \$75,000.....	352,075	8.3%	1,383,614,558	14.6%	278,712	7.7%	1,125,158,601	16.2%
\$75,001 to \$100,000.....	178,133	4.2%	1,015,578,455	10.7%	107,876	3.0%	629,280,825	9.0%
\$100,001 to \$200,000.....	200,821	4.8%	1,845,784,837	19.4%	101,690	2.8%	953,289,412	13.7%
\$200,001 and up.....	74,989	1.8%	2,606,945,650	27.4%	40,107	1.1%	1,544,150,029	22.2%
	<u>4,223,322</u>	<u>100.0%</u>	<u>\$ 9,509,515,787</u>	<u>100.0%</u>	<u>3,607,788</u>	<u>100.0%</u>	<u>\$ 6,960,549,429</u>	<u>100.0%</u>

**Note:** Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Calendar year 2011 is the most recent year for which data are available.

**Individual Income Tax Rates - Last 10 Years**

Calendar Years 2003-2006				
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.

**Individual Income Tax Rates - Last 10 Years**

Calendar Year 2008				
Tax Year	Bracket 1	Bracket 2	Bracket 3	
Married - Joint:				
Taxable income	\$1-\$21,250	\$21,251-\$100,000	> \$100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000	
Tax rate	6%	7%	7.75%	
Calendar Years 2009-2010				
Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 3 Sur tax
Married - Joint:				
Taxable income	\$1-\$21,250	\$21,251-\$100,000	> \$100,000	
Tax rate	6%	7%	up to \$250,000 7.75% > 250,000	2% 3%
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000	
Tax rate	6%	7%	up to \$125,000 7.75% >125,000	2% 3%
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000	
Tax rate	6%	7%	up to \$200,000 7.75% >200,000	2% 3%
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000	
Tax rate	6%	7%	up to \$150,000 7.75% >150,000	2% 3%
Calendar Years 2011-2012				
Tax Year	Bracket 1	Bracket 2	Bracket 3	
Married - Joint:				
Taxable income	\$1-\$21,250	\$21,251-\$100,000	> \$100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000	
Tax rate	6%	7%	7.75%	

**Income tax rate restrictions**

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

**Income Tax Surtax Expired**

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

**TAXABLE SALES BY BUSINESS GROUP**

For the Fiscal Years 2004-2013

*(Dollars in Thousands)*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General merchandise.....	\$ 29,092,064	\$ 28,488,712	\$ 26,997,731	\$ 26,700,373	\$ 27,281,044
Food.....	21,961,810	21,188,038	20,063,710	19,986,254	19,982,767
Lumber & building material.....	11,034,483	10,936,526	9,980,618	9,896,788	11,728,029
Automotive.....	5,855,515	5,798,630	5,592,481	5,371,476	5,365,726
1%, 2%, 2.5% and 3% tax group.....	460,461	447,963	429,092	411,092	653,686
Furniture.....	3,739,815	3,599,804	3,416,656	3,442,183	3,854,662
Apparel.....	4,554,679	4,343,728	3,962,251	3,756,305	3,628,009
Unclassified.....	28,668,485	28,026,651	26,316,563	25,056,266	27,197,294
Total.....	<u>\$ 105,367,312</u>	<u>\$ 102,830,052</u>	<u>\$ 96,759,102</u>	<u>\$ 94,620,737</u>	<u>\$ 99,691,217</u>
Direct sales tax rate	4.75%	4.75%	5.75%	5.75%	4.50%

1%, 2%, 2.5% and 3% tax group includes manufactured homes, airplanes, boats, modular homes, farm, mill, laundry machinery, fuel to farmers, manufacturers and laundries.

Source: North Carolina Department of Revenue

Table 8

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
\$ 27,545,474	\$ 27,814,179	\$ 24,141,458	\$ 36,237,522	\$ 32,223,308
20,427,943	18,856,362	17,333,935	27,537,881	25,767,200
15,125,717	15,625,168	14,749,083	16,234,363	13,775,836
5,782,027	6,138,450	5,416,622	18,109,374	16,588,986
878,522	1,350,932	4,551,097	5,467,429	5,155,348
4,746,011	4,733,484	4,387,923	5,528,144	5,030,490
3,901,540	3,753,902	3,481,573	3,622,110	3,169,392
29,529,959	28,314,743	27,490,165	40,846,913	38,401,343
<b>\$ 107,937,193</b>	<b>\$ 106,587,220</b>	<b>\$ 101,551,856</b>	<b>\$ 153,583,736</b>	<b>\$ 140,111,903</b>
4.25%	4.25%	4.50%	4.50%	4.50%

**SALES TAX REVENUE PAYERS BY BUSINESS GROUP**

For the Fiscal Years 2004 & 2013

	2013		2004	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise.....	\$ 1,386,103,453	23.39%	\$ 905,225,841	19.77%
Food.....	1,050,202,818	17.72%	698,906,710	15.25%
Utilities.....	910,528,887	15.36%	645,652,114	14.09%
Lumber & building material.....	525,650,799	8.87%	509,484,600	11.12%
Automotive.....	291,068,243	4.90%	245,227,323	5.35%
Furniture.....	178,706,520	3.02%	168,784,595	3.68%
Apparel.....	217,286,706	3.67%	127,897,863	2.79%
Farming.....	—	0.00%	43,196,807	0.94%
Unclassified.....	1,367,391,469	23.07%	1,237,648,867	27.01%
<b>Total.....</b>	<b>\$ 5,926,938,895</b>	<b>100.00%</b>	<b>\$ 4,582,024,720</b>	<b>100.00%</b>
General state sales tax rate.....	4.75%		4.50%	

**Recent Significant Sales Tax Rate and Base Changes**

2003-04	<p>Effective <u>July 1, 2003</u>, all sales of soft drinks became subject to both the State and local rates.</p> <p>Effective <u>January 1, 2004</u>, sales of closed container soft drinks sold through vending machines were taxed on only 50% of the sale price.</p> <p>Effective <u>January 1, 2004</u>, candy was exempted from the State tax and subject to only the 2% local tax.</p> <p>Effective for sales made on or after <u>January 1, 2004</u>, modular homes became subject to a 2.5% State sales and use tax rate.</p>
2005-06	<p>Effective <u>October 1, 2005</u>, all sales of candy became subject to the combined general State and county tax rate.</p> <p>Effective <u>October 1, 2005</u>, the sales and use tax imposed on telecommunications, direct-to-home satellite services, and spiritous liquor increased to 7%.</p> <p>Effective <u>January 1, 2006</u>, a 7% State sales and use tax was imposed on cable services, and satellite digital audio radio became subject to both the State general rate of tax and local rates.</p>
2006-07	<p>Effective <u>June 29, 2007</u>, the combined rate is the State's general rate 4.25% plus the sum of the rates of local tax authorized for every county in the State 2.5%.</p> <p>Effective <u>January 1, 2007</u>, sales of intermodal cranes, intermodal hostler trucks and railroad locomotives to the owner or lessee of an eligible railroad intermodal facility was exempted. Sales to the owner or lessee of an eligible railroad intermodal facility of sales taxes on building supplies, fixtures, and equipment that become a part of the real property of the facility was exempted.</p> <p>Effective <u>June 29, 2007</u>, additional 0.25% Sales general and use tax rate, scheduled to be repealed for sales made on or after July 1, 2007, was extended for one month.</p>
2007-08	<p>Effective <u>July 1, 2007</u>, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%.</p> <p>Effective <u>July 1, 2007</u>, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds.</p> <p>Effective <u>July 31, 2007</u>, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75%.</p> <p>Effective <u>October 1, 2007</u>, Tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%.</p> <p>Effective <u>October 1, 2007</u>, Tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Privilege tax sold to manufacturing industry decreased from 1% to 0.7%. Bundled transaction defined to remain compliant with SSTA. Baler twine sold to farmers and bread sold at a bakery thrift store was exempted. State began three year phase- in assumption of the financial nonfederal, nonadministrative Medicaid responsibility for counties that include a 1/2% sales tax rate exchange between local and state governments as well as various measures to insure the local governments are held harmless (protected from revenue loss) as a result of the Medicaid swap legislation.</p> <p>Effective <u>April 1, 2008</u> Combined general rate raised from 6.75% to 7%.</p>

**Recent Significant Sales Tax Rate and Base Changes**

<p>2008-09</p>	<p>Retroactive for purchases made on or after <u>January 1, 2004</u>. Refund provision extended to University Affiliated Nonprofit Organizations that procure, design, construct, or provide facilities to or for use by, a constituent institution of the University of North Carolina.</p> <p>Effective <u>July 1, 2008</u>, tax on electricity sold to farmers and manufacturers (1.8%) repealed. New tax rate is 1.4%. Refund provision expanded to include certain industrial facilities-solar electricity generating materials manufacturing industry. Refund provision expanded to include volunteer fire department or volunteer emergency medical services squad. Privilege tax on fuel sold to a manufacturing industry decreased from 0.7% to 0.5%.</p> <p>Effective <u>July 16, 2008</u>, new sales and use tax holiday for Energy Star qualified products (1st Friday in November through following Sunday). Refund provision to interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2011 (previously January 1, 2009).</p> <p>Effective <u>August 1, 2008</u>, exemption for tpp purchased with a client assistance debit card issued for disaster assistance relief by qualified entities. Exemption for interior design services provided in conjunction with the sale of tpp.</p> <p>Effective <u>October 1, 2008</u>, State general tax raised from 4.25% to 4.5%. Local sales tax rate under Article 44 lowered from 0.5% to 0.25%.</p> <p>Effective <u>January 1, 2009</u>, exemption for bakery items sold without eating utensils by an artisan bakery.</p>
<p>2009-10</p>	<p>Effective <u>July 1, 2009</u>, tax on electricity sold to farmers/manufacturers decreased from 1.4% to 0.8%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.5% to 0.3%.</p> <p>Effective <u>August 7, 2009</u>, online sales- remote sales:certain click-through transactions subject to tax.</p> <p>Effective <u>August 27, 2009</u> - Authorizing legislation for regional transportation authorities and counties to impose a local government sales and use tax rate of 0.25% or 0.5% for public transportation.</p> <p>Effective <u>September 1, 2009</u>, State general tax rate raised from 4.5% to 5.5%. Combined general rate raised from 7% to 8%. (Temporary additional 1% State general sales and use tax rate, scheduled to be repealed for sales made on or after July 1, 2011).</p> <p>Effective <u>October 1, 2009</u>, State general tax raised from 5.5% to 5.75%. Local sales tax rate under Article 44 (0.25%) repealed. Exemption for aircraft simulators purchased by interstate passenger air carriers expanded to include all purchasers of such equipment.</p> <p>Effective <u>January 1, 2010</u>, Sales tax on online purchases - Certain digital property, magazine subscriptions, computer software subject to tax. Exemption for computer software or digital property that becomes a component part.</p>
<p>2010-11</p>	<p>Effective <u>July 1, 2010</u>, tax on electricity sold to farmers/manufacturers decreased from 0.8% to 0%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.3% to 0%. Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011).</p> <p>Effective <u>July 10, 2010</u>, Refund provision to joint governmental agency created to operate a cable television system for purchases made on/after July 1, 2007 and before June 30, 2010.</p> <p>Effective <u>January 1, 2011</u>, Sales tax law on accommodations was modernized to classify facilitators who assist accommodation owners with rentals as retailers subject to sales and use and room occupancy taxes. Facilitation or similar fees are includable in the sales price.</p> <p>Effective <u>June 18, 2011</u>, Refund provision to joint governmental agency created to operate a cable television system extended to purchases made on/after July 1, 2007 and before June 30, 2011 (previously before June 30, 2010).</p>
<p>2011-12</p>	<p>Effective <u>July 1, 2011</u>, Additional 1% State General sales and use tax rate expired.</p> <p>This also has the effect of reducing the State combined general rate from 8% to 7%.</p> <p>Effective <u>June 20, 2012</u>, Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to taxpayers engaged in analytical services (the greater of 50% of eligible amount of tax paid on tpp consumed or transformed in analytical services or 50% of the amount of tax paid on medical reagents) was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to certain industrial facilities for tax paid on building materials, building supplies, fixtures, and equipment installed in the construction of the facility was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013).</p>

Source: North Carolina Department of Revenue

**RATIOS OF OUTSTANDING DEBT BY TYPE**

For the Fiscal Years 2004-2013

*(Dollars in Thousands)*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental activities:					
General obligation bonds.....	\$ 3,999,580	\$ 4,470,500	\$ 4,846,205	\$ 5,270,660	\$ 5,169,265
Lease-purchase revenue bonds.....	20,915	30,915	205,045	215,045	225,045
Certificates of participation.....	508,500	557,895	824,860	872,600	919,585
Limited obligation bonds.....	1,993,740	1,795,090	1,060,745	580,705	600,000
GARVEE bonds.....	454,820	512,085	373,080	434,825	241,820
Less deferred amounts:					
For issuance discounts.....	—	—	—	—	—
On refunding.....	(133,808)	(141,108)	(125,615)	(90,493)	(63,011)
Add issuance premium.....	623,105	485,615	441,218	353,147	275,131
Notes payable.....	39,312	35,691	25,038	30,642	27,663
Capital leases payable.....	19,375	21,282	22,669	22,815	23,833
<b>Total Governmental Activities.....</b>	<b><u>7,525,539</u></b>	<b><u>7,767,965</u></b>	<b><u>7,673,245</u></b>	<b><u>7,689,946</u></b>	<b><u>7,419,331</u></b>
Business-type activities:					
Revenue bonds..... (1), (2)	1,058,458	1,081,183	856,678	622,758	—
GARVEE bonds..... (2)	145,535	145,535	—	—	—
Less deferred amounts:					
For issuance discounts.....	(1,896)	(2,012)	(2,128)	(2,244)	—
Add issuance premium.....	28,661	31,507	—	—	—
Notes payable..... (1), (2)	377,466	286,818	269,030	68,800	—
<b>Total Business-type Activities.....</b>	<b><u>1,608,224</u></b>	<b><u>1,543,031</u></b>	<b><u>1,123,580</u></b>	<b><u>689,314</u></b>	<b><u>—</u></b>
<b>Total Primary Government.....</b>	<b><u>\$ 9,133,763</u></b>	<b><u>\$ 9,310,996</u></b>	<b><u>\$ 8,796,825</u></b>	<b><u>\$ 8,379,260</u></b>	<b><u>\$ 7,419,331</u></b>
Debt as a Percentage of Personal Income....	2.44%	2.58%	2.53%	2.54%	2.33%
Amount of Debt per Capita.....	\$ 927	\$ 955	\$ 911	\$ 879	\$ 791

**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.

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
\$ 5,533,760	\$ 5,902,330	\$ 5,738,815	\$ 5,698,535	\$ 4,982,860
235,045	245,045	255,045	265,045	218,405
965,880	727,640	454,060	475,170	301,165
—	—	—	—	—
287,565	—	—	—	—
(126)	(369)	(721)	(1,175)	(1,724)
(76,923)	(92,259)	(103,059)	(119,653)	(57,940)
287,272	309,261	313,253	339,004	158,773
33,187	37,276	60,841	34,007	25,008
24,659	25,740	26,879	330	304
<u>7,290,319</u>	<u>7,154,664</u>	<u>6,745,113</u>	<u>6,691,263</u>	<u>5,626,851</u>
—	—	8,800	9,070	9,325
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	1,457	1,569	—
—	—	<u>10,257</u>	<u>10,639</u>	<u>9,325</u>
<u>\$ 7,290,319</u>	<u>\$ 7,154,664</u>	<u>\$ 6,755,370</u>	<u>\$ 6,701,902</u>	<u>\$ 5,636,176</u>
2.21%	2.27%	2.28%	2.42%	2.17%
\$ 788	\$ 789	\$ 762	\$ 773	\$ 661

**RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING**

For the Fiscal Years 2004-2013

*(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	Less Deferred Amounts:	
						For Issuance of Discounts	On Refunding
2013	\$3,999,580	\$ 20,915	\$ 508,500	\$1,993,740	\$ 454,820	\$ —	\$ (133,808)
2012	4,470,500	30,915	557,895	1,795,090	512,085	—	(141,108)
2011	4,846,205	205,045	824,860	1,060,745	373,080	—	(125,615)
2010	5,270,660	215,045	872,600	580,705	434,825	—	(90,493)
2009	5,169,265	225,045	919,585	600,000	241,820	—	(63,011)
2008	5,533,760	235,045	965,880	—	287,565	(126)	(76,923)
2007	5,902,330	245,045	727,640	—	—	(369)	(92,259)
2006	5,738,815	255,045	454,060	—	—	(721)	(103,059)
2005	5,698,535	265,045	475,170	—	—	(1,175)	(119,653)
2004	4,982,860	218,405	301,165	—	—	(1,724)	(57,940)

Note: Population data can be found in table 15.

Table 11

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<u>Add</u> <u>Insurance</u> <u>Premium</u>	<u>Total</u>	<u>Per</u> <u>Capita</u>
\$ 623,105	\$ 7,466,852	\$ 757.71
485,615	7,710,992	790.70
441,218	7,625,538	790.12
353,147	7,636,489	800.85
275,131	7,367,835	785.41
287,272	7,232,473	782.13
309,261	7,091,648	782.39
313,253	6,657,393	750.81
339,004	6,656,926	767.86
158,773	5,601,539	656.59

**SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE**

June 30, 2013

(Dollars in Thousands)

*Payable from General Fund Revenues*

	<b>Total General Obligation Bonds</b>	<b>Total General Fund</b>	Clean Water Refunding Series 1999 4-1-99 2.9-5.0%	Public Improvement Series 2001A 3-1-01 4.5-5.0%	Clean Water Series 2002A 12-1-02 2.25 - 5.0%	Public Improvement Series 2003A 3-1-03 2.0% - 5.25%	Public Improvement Series 2003B 4-1-03 2.0-5.0%
<b>Bonds Authorized and Issued:</b>							
Ch. 631, 1995 session law.....	\$ 100,000	\$ 100,000	\$ —	\$ 100,000	\$ —	\$ —	\$ —
General Statute Ch. 142.....	25,905	25,905	25,905	—	—	—	—
Ch. 132, 1998 session law.....	157,155	157,155	—	30,000	18,800	38,355	—
Ch. 3, 2000 session law.....	1,822,800	1,822,800	—	250,000	—	281,645	283,255
2004 session law.....	<u>5,182,839</u>	<u>4,566,275</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total bonds authorized and issued.....	7,288,699	6,672,135	25,905	380,000	18,800	320,000	283,255
Bonds retired.....	2,018,539	1,841,145	20,060	162,530	4,380	261,000	257,255
Partial defeasances.....	<u>1,270,580</u>	<u>1,170,580</u>	<u>—</u>	<u>211,460</u>	<u>—</u>	<u>23,550</u>	<u>25,100</u>
Bonds outstanding— June 30, 2013.....	<u>\$ 3,999,580</u>	<u>\$3,660,410</u>	<u>\$ 5,845</u>	<u>\$ 6,010</u>	<u>\$ 14,420</u>	<u>\$ 35,450</u>	<u>\$ 900</u>
<b>Bond Maturity As Follows:</b>							
2013-14.....	\$ 344,934	\$ 308,406	\$ 1,965	\$ 1,265	\$ 1,795	\$ 1,225	\$ 450
2014-15.....	372,500	325,824	1,950	1,265	1,775	—	450
2015-16.....	372,730	335,147	1,930	1,265	2,245	—	—
2016-17.....	370,600	318,814	—	2,215	510	1,225	—
2017-18.....	381,785	336,453	—	—	4,915	—	—
2018-19.....	384,451	339,063	—	—	3,180	—	—
2019-20.....	373,345	297,468	—	—	—	—	—
2020-21.....	274,525	274,525	—	—	—	—	—
2021-22.....	256,270	256,270	—	—	—	—	—
2022-23.....	251,690	251,690	—	—	—	—	—
2023-24.....	225,635	225,635	—	—	—	—	—
2024-25.....	147,180	147,180	—	—	—	—	—
2025-26.....	85,650	85,650	—	—	—	—	—
2026-27.....	68,630	68,630	—	—	—	16,500	—
2027-28.....	40,885	40,885	—	—	—	16,500	—
2028-29.....	24,385	24,385	—	—	—	—	—
2029-30.....	<u>24,385</u>	<u>24,385</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Bonds Outstanding.....	<u>\$ 3,999,580</u>	<u>\$3,660,410</u>	<u>\$ 5,845</u>	<u>\$ 6,010</u>	<u>\$ 14,420</u>	<u>\$ 35,450</u>	<u>\$ 900</u>

Payable from General Fund Revenues

Public Improvement Series 2004A 3-1-04 2%-5.25%	Public Improvement Refunding Series 2004 9-29-04 3%-5.5%	Public Improvement Series 2005A 1-12-05 4%-5.5%	Refunding Series 2005A 1-12-05 3%-5%	Refunding Series 2005B 6-29-05 5%	Clean Water Series 2006A 3-15-06 3.875%-5.5%	Higher Education Series 2006A 6-14-06 4.25%-5%	Public Improvement Series 2007A 3-1-07 4.125%-5.5%	Refunding Series 2007B 5-9-07 4%-4.5%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
707,900	—	—	—	—	70,000	—	—	—
—	57,470	705,500	106,895	470,510	—	300,000	502,745	84,385
707,900	57,470	705,500	106,895	470,510	70,000	300,000	502,745	84,385
170,000	38,610	264,000	24,250	175,510	21,900	105,000	150,000	1,805
468,280	—	345,190	—	—	—	90,000	7,000	—
<u>\$ 69,620</u>	<u>\$ 18,860</u>	<u>\$ 96,310</u>	<u>\$ 82,645</u>	<u>\$ 295,000</u>	<u>\$ 48,100</u>	<u>\$ 105,000</u>	<u>\$ 345,745</u>	<u>\$ 82,580</u>
\$ 25,000	\$ 9,490	\$ 25,000	\$ 11,810	\$ 73,555	\$ 3,200	\$ 15,000	\$ 25,000	\$ 215
25,000	9,370	25,000	11,680	73,650	3,200	15,000	25,000	225
3,210	—	25,000	11,600	69,255	3,200	15,000	25,000	230
—	—	1,455	47,555	71,925	3,200	—	25,000	240
—	—	1,455	—	6,615	3,200	—	23,250	250
—	—	1,455	—	—	3,200	—	23,250	260
—	—	3,140	—	—	4,000	—	25,000	275
—	—	4,650	—	—	4,000	15,000	23,250	285
—	—	4,650	—	—	4,000	15,000	23,250	295
—	—	—	—	—	4,000	—	25,000	80,305
8,340	—	4,505	—	—	4,000	—	25,000	—
8,070	—	—	—	—	4,000	15,000	25,000	—
—	—	—	—	—	4,900	15,000	25,000	—
—	—	—	—	—	—	—	27,745	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
<u>\$ 69,620</u>	<u>\$ 18,860</u>	<u>\$ 96,310</u>	<u>\$ 82,645</u>	<u>\$ 295,000</u>	<u>\$ 48,100</u>	<u>\$ 105,000</u>	<u>\$ 345,745</u>	<u>\$ 82,580</u>

Continued

**SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (Continued)**

June 30, 2013

(Dollars in Thousands)

*Payable from General Fund Revenues*

	Refunding Series 2009A 10-20-09 3.5%-5%	Public Improvement Series 2010A 4-14-10 4%-5%	Refunding Series 2010B 8-31-10 5%	Refunding Series 2010C 10-12-10 5%	Refunding Series 2013B 2-20-13 3%-5%	Refunding Series 2013C 2-28-13 3.5%-5%	Refunding Series 2013D 2-28-13 3%-4%	Refunding Series 2013E 3-21-13 2%-5%
<b>Bonds Authorized and Issued:</b>								
Ch. 631, 1995 session law. General Statute Ch. 142.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 132, 1998 session law. Ch. 3, 2000 session law.....	—	—	—	—	—	—	—	—
2004 session law.....	169,297	487,700	472,595	236,095	271,373	351,970	349,955	299,785
Total bonds authorized and issued.....	169,297	487,700	472,595	236,095	271,373	351,970	349,955	299,785
Bonds retired.....	14,026	73,155	69,700	—	3,369	—	—	24,595
Partial defeasances.....	—	—	—	—	—	—	—	—
Bonds outstanding— June 30, 2013.....	<u>\$ 155,271</u>	<u>\$ 414,545</u>	<u>\$ 402,895</u>	<u>\$ 236,095</u>	<u>\$ 268,004</u>	<u>\$ 351,970</u>	<u>\$ 349,955</u>	<u>\$ 275,190</u>
<b>Bond Maturity As Follows:</b>								
2013-14.....	\$ 6,532	\$ 24,385	\$ 46,630	\$ —	\$ 20,184	\$ —	\$ —	\$ 15,705
2014-15.....	22,289	24,385	50,095	—	1,530	15,310	2,575	16,075
2015-16.....	31,402	24,385	63,915	—	10,215	28,165	2,655	16,475
2016-17.....	43,269	24,385	15,210	—	23,170	14,850	27,735	16,870
2017-18.....	22,448	24,385	137,430	21,735	455	27,720	27,315	35,280
2018-19.....	22,503	24,385	89,615	21,725	390	35,960	26,885	86,255
2019-20.....	6,828	24,385	—	48,745	—	47,585	66,445	71,065
2020-21.....	—	24,385	—	72,030	450	47,160	65,850	17,465
2021-22.....	—	24,385	—	71,860	400	46,870	65,560	—
2022-23.....	—	24,385	—	—	13,595	39,470	64,935	—
2023-24.....	—	24,385	—	—	143,180	16,225	—	—
2024-25.....	—	24,385	—	—	54,435	16,290	—	—
2025-26.....	—	24,385	—	—	—	16,365	—	—
2026-27.....	—	24,385	—	—	—	—	—	—
2027-28.....	—	24,385	—	—	—	—	—	—
2028-29.....	—	24,385	—	—	—	—	—	—
2029-30.....	—	24,385	—	—	—	—	—	—
Total Bonds Outstanding....	<u>\$ 155,271</u>	<u>\$ 414,545</u>	<u>\$ 402,895</u>	<u>\$ 236,095</u>	<u>\$ 268,004</u>	<u>\$ 351,970</u>	<u>\$ 349,955</u>	<u>\$ 275,190</u>

**SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE**

June 30, 2013

Table 12

*(Dollars in Thousands)**Payable from Highway Trust Fund*

	<i>Total Highway Trust</i>	Highway Series 2004 9-29-04 3%-5%	Highway Refunding Series 2009A 10-20-09 3.5%-5%	Highway Refunding Series 2010C 10-20-10 5%	Highway Refunding Series 2013B 2-20-13 3%-5%
<b>Bonds Authorized and Issued:</b>					
Ch. 631, 1995 session law.....	\$ —	\$ —	\$ —	\$ —	\$ —
General Statute Ch. 142.....	—	—	—	—	—
Ch. 132, 1998 session law.....	—	—	—	—	—
Ch. 3, 2000 session law.....	—	—	—	—	—
2004 session law.....	616,564	300,000	202,622	66,055	47,887
Total bonds authorized and issued.....	616,564	300,000	202,622	66,055	47,887
Bonds retired.....	177,394	160,000	16,788	—	606
Partial defeasances.....	100,000	100,000	—	—	—
Bonds outstanding— June 30, 2013.....	<u>\$ 339,170</u>	<u>\$ 40,000</u>	<u>\$ 185,834</u>	<u>\$ 66,055</u>	<u>\$ 47,281</u>
<b>Bond Maturity As Follows:</b>					
2013-14.....	\$ 36,528	\$ —	\$ 7,817	\$ —	\$ 28,711
2014-15.....	46,676	20,000	26,676	—	—
2015-16.....	37,583	—	37,583	—	—
2016-17.....	51,786	—	51,786	—	—
2017-18.....	45,332	—	26,867	18,465	—
2018-19.....	45,388	—	26,933	18,455	—
2019-20.....	75,877	20,000	8,172	29,135	18,570
2020-21.....	—	—	—	—	—
2021-22.....	—	—	—	—	—
2022-23.....	—	—	—	—	—
2023-24.....	—	—	—	—	—
2024-25.....	—	—	—	—	—
2025-26.....	—	—	—	—	—
2026-27.....	—	—	—	—	—
2027-28.....	—	—	—	—	—
2028-29.....	—	—	—	—	—
2029-30.....	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 339,170</u>	<u>\$ 40,000</u>	<u>\$ 185,834</u>	<u>\$ 66,055</u>	<u>\$ 47,281</u>

Source: Compiled by the Department of State Treasurer

**SCHEDULE OF SPECIAL INDEBTEDNESS DEBT**

June 30, 2013

(Dollars in Thousands)

	<i>Lease-Purchase Revenue Bonds</i>				<i>Certificates of Participation</i>				
	<b>Total Special Indebtedness Debt</b>	<i>Total Lease Purchase Revenue Bonds</i>	NC Correctional Facilities Series 2003 7-15-03 2.0% - 5.25%	NC Facilities Projects Series 2004 11-1-04 2.0% - 5.25%	<i>Total Certificates of Participation</i>	Wildlife Capital Improvements Series 2003A 4-1-03 2.0% - 5.25%	Correctional Facilities Project Series 2004A 2-1-04 2.0% - 5.0%	Repair and Renovation Project Series 2004B 5-6-04 2.0% - 5.25%	Capital Improvements Series 2005A 6-9-05 3.5% - 5.0%
<b>Bonds Authorized and Issued:</b>									
Ch. 284, 2003 session law.....	\$ 3,194,710	\$ 218,405	\$ 218,405	\$ —	\$ 858,955	\$ —	\$ 158,955	\$ 125,000	\$ —
Ch. 143, 2000 session law.....	17,500	—	—	—	17,500	17,500	—	—	—
General Statute Ch. 148-37.2..	53,640	53,640	—	53,640	—	—	—	—	—
Ch. 179, 2004 session law.....	188,385	—	—	—	188,385	—	—	—	188,385
Total bonds authorized and issued.....	3,454,235	272,045	218,405	53,640	1,064,840	17,500	158,955	125,000	188,385
Bonds retired.....	548,535	87,000	71,000	16,000	337,925	6,575	71,545	54,000	61,405
Partial defeasances.....	382,545	164,130	139,280	24,850	218,415	10,725	71,515	59,000	77,175
Bonds outstanding—									
June 30, 2013.....	<u>\$ 2,523,155</u>	<u>\$ 20,915</u>	<u>\$ 8,125</u>	<u>\$ 12,790</u>	<u>\$ 508,500</u>	<u>\$ 200</u>	<u>\$ 15,895</u>	<u>\$ 12,000</u>	<u>\$ 49,805</u>
<b>Bond Maturity As Follows:</b>									
2013-14.....	\$ 120,855	\$ 10,000	\$ 8,000	\$ 2,000	\$ 49,630	\$ 200	\$ 7,950	\$ 6,000	\$ 9,455
2014-15.....	124,175	2,125	125	2,000	42,390	—	—	6,000	9,925
2015-16.....	127,750	2,000	—	2,000	37,350	—	—	—	10,425
2016-17.....	131,490	650	—	650	27,415	—	—	—	—
2017-18.....	135,780	500	—	500	27,935	—	—	—	—
2018-19.....	140,280	—	—	—	28,485	—	—	—	—
2019-20.....	160,040	—	—	—	29,070	—	—	—	—
2020-21.....	161,640	—	—	—	29,690	—	—	—	—
2021-22.....	166,235	—	—	—	30,345	—	—	—	—
2022-23.....	171,295	—	—	—	31,045	—	—	—	—
2023-24.....	177,905	2,820	—	2,820	49,725	—	7,945	—	10,000
2024-25.....	145,895	2,820	—	2,820	42,560	—	—	—	10,000
2025-26.....	138,735	—	—	—	33,390	—	—	—	—
2026-27.....	139,440	—	—	—	29,270	—	—	—	—
2027-28.....	135,465	—	—	—	20,200	—	—	—	—
2028-29.....	120,690	—	—	—	—	—	—	—	—
2029-30.....	79,000	—	—	—	—	—	—	—	—
2030-31.....	82,730	—	—	—	—	—	—	—	—
2031-32.....	46,430	—	—	—	—	—	—	—	—
2032-33.....	17,325	—	—	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 2,523,155</u>	<u>\$ 20,915</u>	<u>\$ 8,125</u>	<u>\$ 12,790</u>	<u>\$ 508,500</u>	<u>\$ 200</u>	<u>\$ 15,895</u>	<u>\$ 12,000</u>	<u>\$ 49,805</u>

Source: Compiled by the Department of State Treasurer.

Table 13

<i>Certificates of Participation</i>				<i>Limited Obligation bonds</i>						
Repair and Renovation Projects Series 2006A 8-16-06 4.0% - 5.0%	Capital Improvements Series 2006A 10-18-06 4.0% - 5.0%	Capital Improvements Series 2007A 10-3-07 4.0% - 5.0%	Repair and Renovation Projects Series 2007B 10-24-07 4.0% - 5.0%	<i>Total Limited Obligation Bonds</i>	Capital Improvements Series 2008A 8-27-08 4.0% - 5.0%	Capital Improvements Series 2009A 4-29-09 2.0% - 5.0%	Capital Improvements Series 2011A 2-16-11 3.0%-5.25%	Capital Improvements Refunding Series 2011B 10-26-11 4.0%-5.0%	Capital Improvements Series 2011C 11-29-11 3.0%-5%	Capital Improvements Series 2013A 1-30-13 2.25%-5%
\$ 100,000	\$ 200,000	\$ 200,000	\$ 75,000	\$ 2,117,350	\$ 200,000	\$ 400,000	\$ 500,000	\$ 367,350	\$ 400,000	\$ 250,000
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
100,000	200,000	200,000	75,000	2,117,350	200,000	400,000	500,000	367,350	400,000	250,000
35,000	60,000	30,650	18,750	123,610	26,070	55,460	29,725	—	12,355	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
<u>\$ 65,000</u>	<u>\$ 140,000</u>	<u>\$ 169,350</u>	<u>\$ 56,250</u>	<u>\$ 1,993,740</u>	<u>\$ 173,930</u>	<u>\$ 344,540</u>	<u>\$ 470,275</u>	<u>\$ 367,350</u>	<u>\$ 387,645</u>	<u>\$ 250,000</u>
\$ 5,000	\$ 10,000	\$ 7,275	\$ 3,750	\$ 61,225	\$ 7,350	\$ 15,090	\$ 17,950	\$ —	\$ 12,970	\$ 7,865
5,000	10,000	7,715	3,750	79,660	7,720	15,670	18,490	15,905	13,620	8,255
5,000	10,000	8,175	3,750	88,400	8,105	16,360	19,230	21,735	14,300	8,670
5,000	10,000	8,665	3,750	103,425	8,510	17,060	20,000	33,735	15,015	9,105
5,000	10,000	9,185	3,750	107,345	8,935	17,835	20,800	34,450	15,765	9,560
5,000	10,000	9,735	3,750	111,795	9,385	18,610	21,630	35,580	16,555	10,035
5,000	10,000	10,320	3,750	130,970	9,855	19,455	22,495	51,240	17,385	10,540
5,000	10,000	10,940	3,750	131,950	10,345	20,415	23,395	48,480	18,250	11,065
5,000	10,000	11,595	3,750	135,890	10,860	21,435	24,330	48,480	19,165	11,620
5,000	10,000	12,295	3,750	140,250	11,405	22,470	25,545	48,510	20,120	12,200
5,000	10,000	13,030	3,750	125,360	11,975	23,590	26,825	29,235	20,925	12,810
5,000	10,000	13,810	3,750	100,515	12,575	24,770	28,165	—	21,555	13,450
5,000	10,000	14,640	3,750	105,345	13,205	26,010	29,575	—	22,635	13,920
—	10,000	15,520	3,750	110,170	13,865	27,255	31,050	—	23,765	14,235
—	—	16,450	3,750	115,265	14,555	28,565	32,605	—	24,595	14,945
—	—	—	—	120,690	15,285	29,950	34,235	—	25,825	15,395
—	—	—	—	79,000	—	—	36,030	—	27,115	15,855
—	—	—	—	82,730	—	—	37,925	—	28,475	16,330
—	—	—	—	46,430	—	—	—	—	29,610	16,820
—	—	—	—	17,325	—	—	—	—	—	17,325
<u>\$ 65,000</u>	<u>\$ 140,000</u>	<u>\$ 169,350</u>	<u>\$ 56,250</u>	<u>\$ 1,993,740</u>	<u>\$ 173,930</u>	<u>\$ 344,540</u>	<u>\$ 470,275</u>	<u>\$ 367,350</u>	<u>\$ 387,645</u>	<u>\$ 250,000</u>

**PLEDGED REVENUE COVERAGE**

For the Fiscal Years 2004-2013

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Department of Transportation</b>					
<b>Grant Anticipation Revenue Vehicle Bonds (GARVEE)</b>					
Pledged Revenue-					
Federal transportation revenues.....	\$ 1,137,807	\$ 1,224,161	\$ 1,372,359	\$ 823,450	\$ 1,119,259
Net available revenue.....	<u>\$ 1,137,807</u>	<u>\$ 1,224,161</u>	<u>\$ 1,372,359</u>	<u>\$ 823,450</u>	<u>\$ 1,119,259</u>
Debt service					
Principal.....	\$ 57,265	\$ 40,535	\$ 61,745	\$ 49,515	\$ 45,745
Interest.....	23,288	18,298	20,082	17,652	13,585
Coverage ratio.....	14.12	20.81	16.77	12.26	18.87
<b>North Carolina Turnpike Authority</b>					
<b>Revenue Bonds (including GARVEE bonds)</b>					
Pledged Revenue-					
Federal transportation revenues.....	\$ 12,365	\$ 12,400	\$ —	\$ —	\$ —
Federal interest subsidy on debt.....	11,686	12,218	10,843	7,298	—
Interest on investments.....	2,372	2,910	5,235	4,121	—
Transfers in - state appropriations.....	49,000	49,000	49,000	25,000	—
Net available revenue.....	<u>\$ 75,423</u>	<u>\$ 76,528</u>	<u>\$ 65,078</u>	<u>\$ 36,419</u>	<u>\$ —</u>
Debt service					
Principal.....	\$ 22,725	\$ —	\$ —	\$ —	\$ —
Interest.....	63,076	49,753	37,869	15,052	—
Coverage ratio.....	0.88	1.54	1.72	2.42	—

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 904,400	\$ —	\$ —	\$ —	\$ —
<u>\$ 904,400</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ —	\$ —	\$ —	\$ —	\$ —
5,056	—	—	—	—
178.87	—	—	—	—
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
—	—	—	—	—

Continued

**PLEDGED REVENUE COVERAGE (Continued)**

For the Fiscal Years 2004-2013

*(Dollars in Thousands)*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>University of North Carolina System</b>					
<b>Revenue Bonds</b>					
Pledged Revenue-					
Sales and services.....	\$ 237,607	\$ 279,287	\$ 321,229	\$ 319,513	\$ 412,186
Student tuition and fees.....	6,624	6,903	13,859	13,503	15,405
Patient Services.....	666,238	635,434	592,061	561,392	502,062
Contracts and grants.....	—	—	—	—	—
State appropriations.....	—	—	3	—	—
Fees, licenses and fines.....	—	270	565	89	1,643
Rental lease earnings.....	73	258	6,787	5,809	5,989
Investment income.....	533	612	944	1,405	5,190
Federal interest subsidy on debt.....	400	436	1,559	—	—
Other operating revenues.....	—	1,072	563	538	708
Net incr (decr) in fair value of investments.....	362	74	—	—	—
Non-operating revenues.....	92	66	—	—	—
Less: Operating expenses.....	(797,205)	(744,162)	(773,796)	(749,788)	(805,531)
Net available revenue.....	<u>\$ 114,724</u>	<u>\$ 180,250</u>	<u>\$ 163,774</u>	<u>\$ 152,461</u>	<u>\$ 137,652</u>
Debt service					
Principal.....	\$ 17,110	\$ 21,035	\$ 10,305	\$ 20,754	\$ 19,375
Interest.....	9,137	13,226	12,245	9,472	15,793
Coverage ratio.....	4.37	5.26	7.26	5.04	3.91
<b>Certificates of Participation (COPS)</b>					
Pledged Revenue-					
Sales and services.....	\$ 6,283	\$ 5,998	\$ 5,896	\$ 5,688	\$ 5,969
Student tuition and fees.....	1,350	1,307	1,294	1,286	1,329
Rental lease earnings.....	—	62	31	26	77
Investment income.....	—	4	2	3	8
Other operating revenues.....	—	17	33	32	96
Less: Operating expenses.....	(2,127)	(2,144)	(2,026)	(2,244)	(2,076)
Net available revenue.....	<u>\$ 5,506</u>	<u>\$ 5,244</u>	<u>\$ 5,230</u>	<u>\$ 4,791</u>	<u>\$ 5,403</u>
Debt service					
Principal.....	\$ 1,788	\$ 1,728	\$ 1,630	\$ 1,555	\$ 1,485
Interest.....	1,923	1,997	2,052	2,142	1,947
Coverage ratio.....	1.48	1.41	1.42	1.30	1.57

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 658,628	\$ 614,244	\$ 562,332	\$ 531,673	\$ 513,867
29,221	37,088	36,847	51,657	54,525
1,447,635	1,367,363	1,210,356	1,131,038	1,057,614
123,469	120,657	120,513	113,049	104,373
53,010	45,674	44,510	39,334	37,788
10,506	19,814	19,626	13,056	12,413
7,690	29,587	21,182	18,802	17,781
(31,687)	99,337	31,632	19,121	20,580
—	—	—	—	—
13,407	20,318	30,369	30,133	32,284
—	—	—	—	—
53,231	50,929	37,274	39,558	35,688
(2,047,904)	(1,919,133)	(1,763,826)	(1,653,952)	(1,604,207)
<u>\$ 317,206</u>	<u>\$ 485,878</u>	<u>\$ 350,815</u>	<u>\$ 333,469</u>	<u>\$ 282,706</u>
\$ 51,272	\$ 51,995	\$ 52,696	\$ 54,917	\$ 54,467
69,315	66,764	66,557	58,146	53,067
2.63	4.09	2.94	2.95	2.63
\$ 2,446	\$ —	\$ —	\$ —	\$ —
1,147	1,114	1,090	—	—
118	—	—	—	—
45	44	19	—	—
—	—	—	—	—
(895)	(60)	—	—	—
<u>\$ 2,861</u>	<u>\$ 1,098</u>	<u>\$ 1,109</u>	<u>\$ —</u>	<u>\$ —</u>
\$ 1,075	\$ 905	\$ 575	\$ —	\$ —
1,209	573	222	—	—
1.25	0.74	1.39	—	—

**SCHEDULE OF DEMOGRAPHIC DATA**

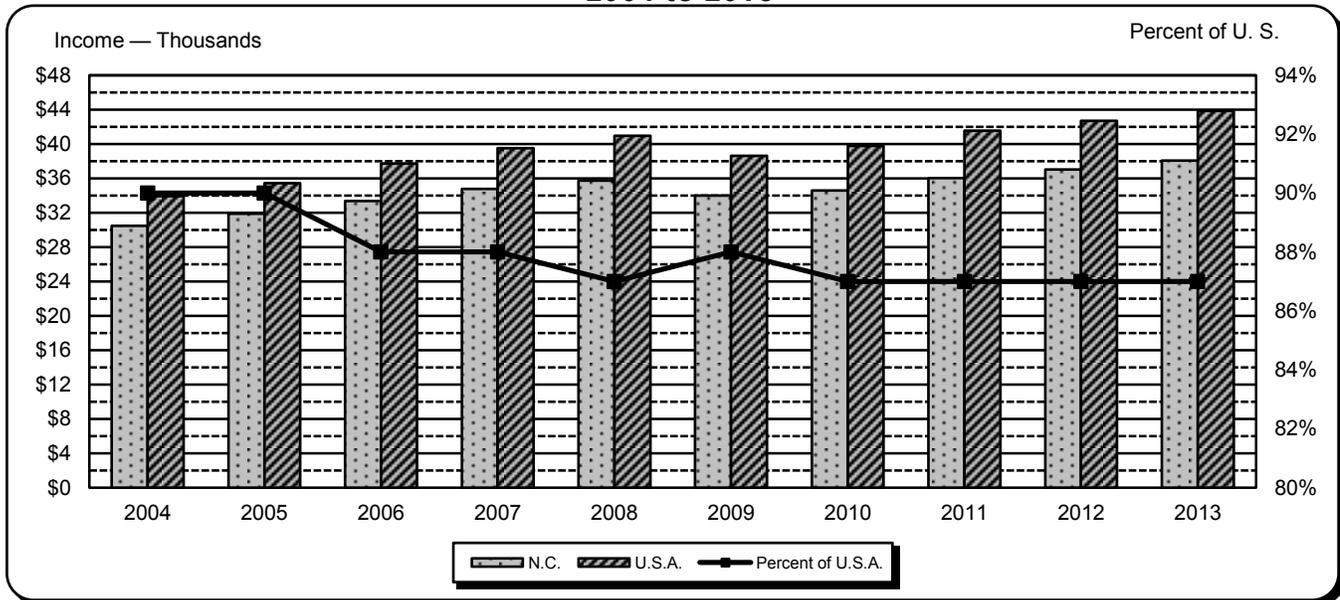
For the Years 2004-2013

Year	Population [3]				Per Capita Income [4]			Personal Income (millions) [5]	
	[1] United States Population	U.S. Increase from Prior Period	[1] North Carolina Population	N.C. Increase from Prior Period	[2] United States	[2] North Carolina	N.C. as a Percentage of U.S.	United States	North Carolina
2013	316,268,395	0.75%	9,854,470	1.05%	\$43,857	\$ 38,059	86.78%	\$13,870,583	\$375,051
2012	313,914,040	0.75%	9,752,073	1.05%	42,693	37,049	86.78%	13,401,932	361,305
2011	311,587,816	0.92%	9,651,103	1.21%	41,560	36,028	86.69%	12,949,590	347,710
2010	308,745,538	0.57%	9,535,483	1.65%	39,791	34,604	86.96%	12,285,294	329,966
2009	307,006,550	0.86%	9,380,884	1.45%	38,637	34,001	88.00%	11,861,812	318,959
2008	304,374,846	0.93%	9,247,134	2.02%	40,947	35,741	87.29%	12,463,237	330,502
2007	301,579,895	1.00%	9,064,074	2.22%	39,506	34,761	87.99%	11,914,215	315,076
2006	298,593,212	0.96%	8,866,977	2.28%	37,725	33,373	88.46%	11,264,429	295,918
2005	295,753,151	0.92%	8,669,452	1.62%	35,452	31,905	89.99%	10,485,041	276,599
2004	293,045,739	0.94%	8,531,283	1.36%	33,909	30,480	89.89%	9,936,888	260,034

[ 1 ] - U.S. Census estimates based on 2000 census (July 1) for years 2004 - 2009; Year 2010 is April 1 U.S. Census count; U.S. Census estimates based on 2010 census (July 1) for years 2011 - 2012; and year 2013 is an Office of the State Controller estimate.

[ 2 ] - Bureau of Economic Analysis estimate for years 2004 - 2012. Since the 2013 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 2013 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2013 Per Capita Income for North Carolina".

**Per Capita Income  
North Carolina Compared to United States  
2004 to 2013**



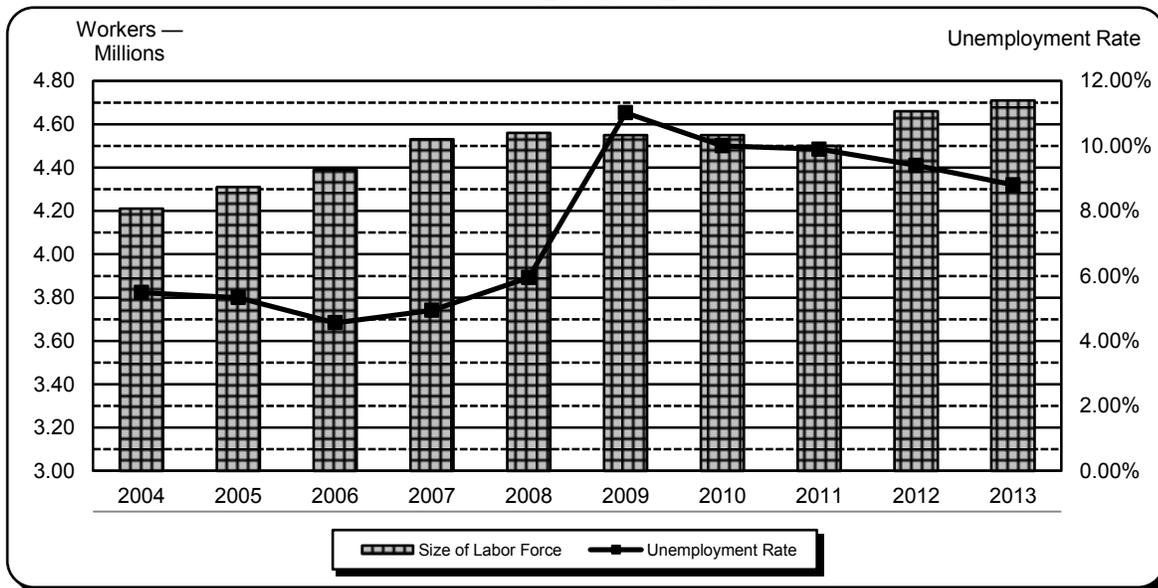
Sources: [3] Population  
[4] Per Capita Income  
[5] Personal Income

U.S. Department of Commerce, Bureau of the Census  
U.S. Department of Commerce, Bureau of Economic Analysis  
Calculated from sources 3 and 4

Table 15

Year	North Carolina Civilian Labor Force Data [6]				North Carolina - Other Data	
	Total	Employed	Unemployed	Unemployed Percentage Rate	[7] Motor Vehicles Registered	[8] Residential Construction Authorized
2013	4,708,565	4,292,251	416,314	8.80%	8,811,236	25,065
2012	4,655,387	4,216,014	439,373	9.40%	8,740,382	23,894
2011	4,503,162	4,055,793	447,369	9.90%	8,342,983	16,536
2010	4,545,756	4,089,199	456,557	10.00%	8,207,805	18,525
2009	4,554,663	4,052,943	501,720	11.02%	8,451,048	17,006
2008	4,559,713	4,288,621	271,092	5.95%	8,570,893	31,316
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626
2005	4,308,482	4,078,645	229,837	5.33%	7,925,587	50,488
2004	4,208,568	3,977,421	231,147	5.49%	7,701,410	46,735

**Civilian Labor Force Trends  
With Unemployment Percentages  
2004 to 2013**



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 2004 &amp; 2013

Table 16

<b>Employer</b>	<b>2013</b>			<b>2004</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total State Employment</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total State Employment</b>
State of North Carolina.....	180,000-184,999	1	4.25%	165,000-170,000	1	4.21%
Federal Government.....	65,000-69,999	2	1.57%	60,000-64,999	2	1.57%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.22%	40,000-44,999	3	1.07%
Charlotte Mecklenburg Hospital.....	30,000-34,999	4	0.76%	10,000-14,999	9	0.31%
Duke University.....	30,000-34,999	5	0.76%	25,000-29,999	5	0.69%
Food Lion LLC.....	25,000-29,999	6	0.64%	25,000-29,999	4	0.69%
Wells Fargo Bank NA.....	20,000-24,999	7	0.52%	15,000-19,999	6	0.44%
Charlotte-Mecklenburg Board of Education..	20,000-24,999	8	0.52%	15,000-19,999	7	0.44%
Bank of America NA.....	20,000-24,999	9	0.52%	—	—	—
Wake County Public schools.....	15,000-19,999	10	0.41%	10,000-14,999	10	0.31%
IBM Corporation.....	—	—	—	15,000-19,999	8	0.44%
<b>Total</b>	<b>450,000-509,990</b>		<b>11.17%</b>	<b>380,000-429,991</b>		<b>10.17%</b>

**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 2004-2013

<b>Functions</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
General government.....	5,450	5,425	5,835	5,941	5,898
Primary and secondary education.....	165,167	162,124	157,380	154,107	163,322
Higher education:					
Universities.....	60,665	61,317	62,716	61,505	61,063
Community colleges.....	19,518	19,702	19,958	18,948	17,263
Health and human services (1).....	17,786	17,958	20,382	20,919	22,094
Economic development.....	2,722	2,415	2,767	2,524	2,474
Environment and natural resources (2).....	3,549	3,561	4,582	4,607	4,740
Public safety, corrections and regulation (1).....	34,668	34,650	34,045	33,140	33,895
Transportation.....	13,170	13,175	13,550	13,902	14,767
Agriculture (2).....	2,110	2,064	1,349	1,366	1,393
<b>Totals.....</b>	<b>324,805</b>	<b>322,391</b>	<b>322,564</b>	<b>316,959</b>	<b>326,909</b>

- (1) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in public safety, corrections and regulation function; whereas in prior years it was included with 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 environment and natural resources function.

Source: North Carolina Office of State Budget and Management  
 Counts for fiscal year end 2013 are projected from prior year data.

Table 17

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
5,774	5,656	5,308	5,122	4,996
163,113	160,086	156,463	152,746	147,798
58,856	56,751	55,800	53,560	51,902
16,708	16,148	15,610	15,764	15,277
21,276	21,128	20,766	20,665	20,366
2,558	2,623	2,567	2,366	2,469
4,709	4,653	4,616	4,493	4,341
33,014	32,360	31,820	30,742	30,430
14,752	14,664	14,007	14,379	14,218
1,385	1,405	1,377	1,339	1,343
<u>322,145</u>	<u>315,474</u>	<u>308,334</u>	<u>301,176</u>	<u>293,140</u>

## OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2004-2013

	2013	2012	2011	2010	2009
<b>General Government</b>					
<b>Department of Revenue</b>					
Number of tax returns filed electronically.....	5,139,849	4,801,446	4,078,310	4,089,267	3,502,141
Number of tax returns processed.....	10,772,255	10,888,330	10,596,928	10,898,544	11,336,722
Number of individual refunds direct deposited.....	1,821,767	1,702,620	1,556,340	1,376,997	1,294,894
Number of individual refunds processed.....	3,123,326	3,083,401	3,026,035	3,021,379	3,081,986
Number of pieces of incoming mail.....	5,514,005	5,827,530	6,012,977	7,219,907	6,897,757
Number of pieces of outgoing mail.....	8,172,888	8,525,983	8,972,129	8,201,770	8,443,945
<b>Department of Administration</b>					
Construction projects administered.....	7	6	6	16	135
Construction value excluding design fee (thousands).....	\$ 62,729	\$ 54,378	\$ 35,403	\$ 79,906	\$ 110,674
<b>Cultural Resources</b>					
Visitation to historical sites and museums.....	3,037,648	2,966,128	2,966,209	2,325,718	2,079,340
<b>Primary and Secondary Education</b>					
<b>Public School(K-12)</b>					
Public school enrollment.....	1,493,474	1,481,671	1,476,348	1,465,562	1,466,803
Total high school graduates.....	94,869	92,031	89,027	89,968	83,618
Graduate intention to pursue further education.....	85.00%	100.00%	86.12%	85.19%	85.09%
<b>Higher Education</b>					
<b>Community Colleges</b>					
Number of students (annualized FTE).....	238,092	240,338	249,934	246,656	215,915
Number of certificates and degrees awarded.....	40,224	56,140	39,255	33,922	31,203
<b>Universities</b>					
Number of regular term students (FTE).....	201,251	200,386	201,147	199,717	193,219
Number of certificates and degrees awarded.....	49,791	48,045	45,821	43,459	41,924
<b>Health and Human Services</b>					
<b>Department of Health and Human Services</b>					
Medicaid recipients (1).....	1,781,096	1,872,279	1,670,912	1,721,439	1,686,515
Food stamp recipients.....	1,670,428	2,113,648	1,567,572	1,294,732	1,077,914
Clients served by mental health facilities.....	3,463	4,102	4,423	6,199	8,465
Clients served by developmental disabilities facilities.....	1,289	1,283	1,334	1,323	1,351
Clients served by substance abuse facilities.....	4,181	3,901	4,200	4,103	3,922
Clients served by neuro-meds facilities.....	567	830	827	829	858
Children served through subsidized child care.....	121,303	129,752	136,564	151,363	150,813
Participation in Special Supplemental Nutrition Program...	265,616	268,872	272,806	271,980	273,845
Clients served through Work First.....	45,201	102,367	47,166	56,186	54,911
NC Health Choice annual enrollment.....	192,044	154,927	208,563	198,613	194,611
<b>Economic Development</b>					
<b>Department of Commerce</b>					
Jobs generated company recruitment/expansion.....	16,939	15,634	22,409	18,326	15,077
Capital investment (thousands).....	\$ 2,139,346	\$ 3,600,000	\$ 4,151,293	\$ 2,653,795	\$ 3,433,657
<b>Division of Employment Security</b>					
Total employed.....	4,292,251	4,216,014	4,055,793	4,089,199	4,052,943
Percentage of unemployment.....	8.80%	9.40%	9.90%	10.00%	11.02%

Table 18

2008	2007	2006	2005	2004
3,246,333	2,799,979	2,487,716	1,922,459	1,666,765
11,258,489	10,386,112	10,437,669	9,947,817	9,725,620
1,119,403	925,321	809,473	673,976	564,200
3,005,539	2,832,152	2,834,960	2,732,523	2,658,709
8,636,219	8,092,899	7,986,688	8,334,624	8,122,589
9,194,775	7,844,614	9,206,342	8,687,346	8,922,981
117	61	71	226	181
\$ 52,660	\$ 60,028	\$ 73,006	\$ 873,713	\$ 486,287
2,627,987	2,748,455	2,068,910	2,356,046	2,465,484
1,462,374	1,435,275	1,368,607	1,346,681	1,325,344
80,606	88,691	72,580	74,691	71,853
84.86%	84.63%	87.09%	84.64%	83.26%
200,000	193,410	190,644	194,235	192,693
28,173	27,117	28,983	29,600	27,050
187,791	181,886	176,619	158,398	152,224
39,592	38,260	37,348	37,569	36,689
1,721,488	1,667,354	1,673,510	1,545,366	1,541,450
924,265	874,426	838,064	818,141	791,241
11,729	14,897	14,766	14,909	13,753
1,376	1,390	1,382	1,425	1,472
4,052	3,463	3,692	3,493	3,440
854	874	851	852	853
159,457	167,568	230,140	155,339	156,534
254,120	239,441	63,290	224,670	218,345
53,082	59,340	69,885	39,426	42,177
181,685	171,580	199,160	169,491	N/A
11,636	19,259	20,293	18,246	15,393
\$ 3,600,000	\$ 3,336,864	\$ 3,024,914	\$ 2,982,292	\$ 1,863,213
4,288,621	4,309,833	4,193,971	4,078,645	3,977,421
5.95%	4.94%	4.56%	5.33%	5.49%

Continued

**OPERATING INDICATORS BY FUNCTION (Continued)**

For the Fiscal Years 2004-2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><u>Environment and Natural Resources</u></b>					
<b>Department of Environment and Natural Resources</b>					
Public drinking water systems in compliance.....	96%	95%	96%	96%	95%
Visitation to Museum of Natural Sciences.....	1,205,601	914,044	675,751	656,234	763,763
Visitation to N.C. Zoo.....	732,310	738,072	741,119	749,627	729,615
<b>Wildlife Resources Commission</b>					
Hunting licenses sold.....	217,113	214,767	218,397	213,700	212,361
Fishing licenses sold.....	534,660	552,130	540,318	543,544	560,282
Vessels registered.....	149,311	143,535	147,964	151,348	143,071
<b><u>Public Safety, Corrections and Regulation (4)</u></b>					
<b>Department of Public Safety</b>					
Incarcerated adult offenders.....	37,619	38,385	41,030	40,102	40,824
Supervised adult offenders.....	105,763	103,163	109,326	111,743	114,367
Juvenile offenders.....	8,625	9,090	9,332	9,867	10,701
<b>Administrative Office of the Courts</b>					
Cases disposed as a % of cases filed-Superior Court.....	100.00%	100.00%	100.00%	100.00%	97.40%
Cases disposed as a % of cases filed-District Court.....	100.00%	100.00%	100.00%	100.00%	100.00%
<b><u>Agriculture</u></b>					
<b>Department of Agriculture and Consumer Services</b>					
Motor fuel dispensers tested (2).....	110,730	104,666	99,273	121,897	99,461
Rejection rate.....	12.84%	9.20%	9.93%	10.77%	10.29%
Retail scales tested (3).....	27,995	28,074	28,925	33,331	33,329
Rejection rate.....	9.65%	8.14%	7.63%	11.10%	11.11%

**Notes:**

- (1) A significant portion of the increase in Medicaid recipients from 2005 to 2006 is the result of legislation moving children formerly covered under State Child Health Insurance Program to Medicaid for 2006. This change resulted in minimal additional cost to the Medicaid program.
- (2) Governed by Gasoline and Oil Inspection Law (G.S. 119)
- (3) Governed by North Carolina Weights and Measures Act (G.S. 81A)
- (4) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in public safety, corrections and regulation function; whereas in prior years it was included with health and human services function.

Table 18

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
95%	95%	94%	93%	94%
727,000	667,014	622,915	556,422	913,751
729,500	746,650	682,977	705,030	676,956
211,780	204,425	204,451	107,242	107,572
538,800	511,974	451,412	331,688	329,314
140,573	142,808	363,641	354,096	361,134
39,112	38,218	37,121	36,481	34,990
116,927	117,164	116,513	117,611	117,196
10,592	10,844	10,658	10,575	10,349
98.50%	98.50%	93.80%	95.52%	96.27%
98.28%	98.70%	98.10%	97.56%	95.92%
98,736	100,928	109,699	95,735	103,026
12.73%	13.80%	10.77%	8.87%	7.22%
24,640	20,051	24,896	27,678	23,335
10.51%	10.70%	8.28%	9.09%	8.70%

**CAPITAL ASSET STATISTICS BY FUNCTION**

For the Fiscal Years 2004-2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Primary Government</b>					
<b>General Government</b>					
<b>Department of Administration</b>					
Buildings.....	127	120	117	129	129
Parking lots.....	25	25	25	76	23
Parking spaces.....	8,597	7,877	8,314	8,813	7,408
Motor Fleet vehicles .....	7,620	7,538	8,145	8,341	8,784
<b>Health and Human Services</b>					
Mental Health Institutions.....	12	11	11	12	13
Number of certified beds.....	4,402	4,314	4,331	4,688	4,346
<b>Environment and Natural Resources</b>					
<b>Department of Environment and Natural Resources</b>					
Number of state park lands.....	35	35	35	35	35
Acres of state park lands.....	153,959	152,578	150,807	148,897	144,806
Number of state recreation areas.....	4	4	4	4	4
Acres of state recreation areas.....	12,240	12,240	12,240	12,240	12,240
Number of state natural areas.....	20	20	20	19	19
Acres of state natural areas.....	22,519	22,254	22,145	20,833	20,910
Number of state lakes.....	7	7	7	7	7
Acres of state lakes.....	29,135	29,135	29,135	29,135	29,135
Zoo animals (1).....	1,622	1,593	1,355	1,569	1,565
Vehicles (7).....	903	918	1,980	1,947	1,912
Boats/trailers (7).....	1,304	1,269	1,480	1,416	1,390
Aircraft (7).....	3	3	40	47	47
Scientific equipment.....	4,538	4,806	5,467	5,262	5,058
<b>Wildlife Resources Commission</b>					
Number of game lands.....	57	62	62	61	59
Acres of game lands.....	492,440	480,257	480,257	475,212	468,570
<b>Public Safety, Corrections and Regulation (6)</b>					
<b>Department of Public Safety</b>					
Close security prisons.....	13	14	14	14	14
Medium security prisons.....	23	23	23	23	26
Minimum security prisons.....	29	29	33	33	39
Youth facilities.....	13	15	16	17	17
Vehicles:					
Passenger/cargo vans.....	120	152	106	108	118
Inmate transfer vans/buses.....	492	506	493	608	511
Inmate work crew vans/buses.....	222	239	243	276	291
Pickup trucks.....	338	381	349	353	351
Roving patrol pickups.....	98	91	92	103	89
One ton maintenance trucks.....	107	123	95	115	108
Specialty/other trucks (2).....	113	105	129	119	114
Enterprise Vehicles:					
Passenger/cargo vans.....	14	14	17	18	22
Inmate workcrew buses.....	15	20	23	25	26
Pickup trucks.....	44	49	49	54	59
One ton maintenance trucks.....	24	24	21	22	22
Specialty/other trucks.....	26	110	103	101	103

Table 19

2008	2007	2006	2005	2004
129	135	136	134	132
49	49	49	17	18
8,477	8,215	8,156	7,879	7,961
9,090	9,506	10,785	16,145	14,592
12	12	12	12	12
4,932	4,961	5,009	4,885	5,083
34	33	32	32	30
140,254	119,664	222,251	182,251	176,146
4	4	4	4	4
12,240	12,240	12,240	12,240	12,240
17	18	14	17	17
20,281	34,288	32,930	30,513	30,323
7	7	7	7	7
29,135	29,135	29,135	29,135	29,135
1,723	1,786	1,942	2,024	2,643
1,862	1,789	1,723	1,618	1,574
1,325	1,295	366	327	308
48	45	30	40	40
4,702	4,666	4,454	3,979	3,572
58	54	38	37	35
471,248	431,449	341,351	317,467	325,794
13	13	13	13	16
26	26	26	26	24
39	39	39	37	36
14	14	14	14	15
131	172	99	85	69
541	487	481	418	398
306	274	301	380	394
361	353	287	275	325
100	80	84	78	77
104	106	105	92	98
129	113	103	113	108
23	22	23	24	31
28	24	21	22	21
52	51	47	51	41
20	18	18	16	21
104	98	93	95	86

Continued

**CAPITAL ASSET STATISTICS BY FUNCTION (Continued)**

For the Fiscal Years 2004-2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Department of Public Safety</b>					
Vehicles:					
<i>Alcohol Law Enforcement</i>					
Cars/SUV's.....	172	202	174	156	156
<i>State Highway Patrol</i>					
Cars.....	1,766	2,214	2,422	2,692	2,692
Trucks/vans.....	486	124	126	128	128
Motorcycles (3).....	28	26	25	19	19
Air craft:					
<i>State Highway Patrol</i>					
Helicopters.....	9	9	7	8	8
<b><u>Transportation</u></b>					
<b>Department of Transportation</b>					
Pavement in lane-miles:					
Primary subsystem (4).....	—	15,052	15,002	14,952	14,919
Secondary subsystem (4).....	—	64,440	64,413	64,378	64,267
Bridges:					
Number of bridges.....	13,557	13,583	13,531	13,251	13,222
Number of culverts.....	4,547	4,710	4,730	5,056	5,007
Vehicles.....	9,484	8,997	8,337	8,422	9,349
Heavy equipment.....	14,221	13,827	12,703	12,647	13,216
<b><u>Component Units</u></b>					
<b><u>Higher Education</u></b>					
<b>Community Colleges</b>					
Buildings.....	1,178	1,174	1,161	1,134	1,097
<b>Universities</b>					
Academic/administrative buildings.....	1,003	1,011	993	962	933
Dormitories/auxiliary buildings.....	692	680	654	640	560
Medical (5).....	36	34	31	37	39
<b>University System Hospitals</b>					
Administration.....	18	11	4	4	4
Clinical.....	52	14	12	11	12
Facility services.....	9	6	6	6	6
Hospital.....	8	6	6	6	5

**Notes:**

- (1) 500-600 fish were lost due to aquarium malfunction in 2005.
- (2) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.
- (3) Prior year data from the source was not available.
- (4) Recent data from the source was not available, as of the date of publication.
- (5) East Carolina Teaching Hospital
- (6) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in public safety, corrections and regulation function; whereas in prior years it was included with health and human services function.
- (7) Starting in fiscal year 2012, vehicles, boats/trailers, and aircraft have decreased because the Division of North Carolina Forest Service and Division of Soil and Water Conservation are now included in Department of Agriculture; whereas in prior years the divisions were included with Department of Environment and Natural Resources.

Table 19

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
150	151	156	134	154
2,722	2,530	2,417	2,283	2,312
111	115	114	59	63
16	16	9	—	—
8	8	13	14	11
14,885	14,871	14,833	14,805	14,760
64,553	64,390	64,209	64,204	64,085
13,152	13,053	13,007	12,961	12,916
5,004	4,979	4,912	4,879	4,761
8,850	8,850	5,823	6,347	7,466
12,116	8,920	3,119	3,359	3,788
1,046	1,024	1,014	1,025	1,064
911	971	930	918	893
523	613	583	565	537
58	58	51	51	51
4	4	4	4	4
11	11	10	10	10
6	6	6	6	6
4	4	4	4	4

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**PUBLIC SCHOOL INSURANCE FUND**  
For the Fiscal Years Ended June 30, 2004-2013

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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, 2004-2013

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.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1) Required contribution and investment revenue:										
Earned.....	\$ 10,826	\$ 16,219	\$ 12,538	\$ 14,509	\$ 18,430	\$ 18,054	\$ 20,337	\$ 16,257	\$ 20,699	\$ 13,978
Ceded.....	3,121	2,380	2,489	3,077	2,371	3,642	3,852	3,576	3,717	4,502
Net earned.....	7,705	13,839	10,049	11,432	16,059	14,412	24,189	19,833	24,416	18,480
2) Unallocated expenses	3,689	2,951	3,092	3,672	664	680	659	666	701	714
3) Estimated claims and expenses, end of policy year:										
Incurred.....	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386
Ceded.....	—	—	—	—	—	—	—	—	—	—
Net incurred.....	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386
4) Paid (cumulative) as of:										
End of policy year.....	10,381	3,129	3,130	15,174	1,426	1,746	1,502	5,505	6,992	1,975
One year later.....	12,788	3,536	4,005	19,270	2,016	2,149	2,082	13,090	9,389	
Two years later.....	13,120	3,536	4,005	19,270	2,016	2,149	2,082	13,090		
Three years later.....	13,120	3,536	4,005	19,270	2,016	2,149	2,082			
Four years later.....	13,120	3,536	4,005	19,270	2,016	2,149				
Five years later.....	13,120	3,536	4,005	19,270	2,016					
Six years later.....	13,120	3,536	4,005	19,270						
Seven years later.....	13,120	3,536	4,005							
Eight years later.....	13,120	3,536								
Nine years later.....	13,120									
5) Reestimated ceded claims and expenses.....	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304	6,386
One year later.....	12,911	2,093	3,096	11,348	1,653	2,276	1,846	27,242	13,159	
Two years later.....	12,911	2,093	3,096	11,348	1,979	2,269	1,846	27,242		
Three years later.....	12,911	2,093	3,096	11,348	1,979	2,269				
Four years later.....	12,911	2,093	3,096	11,348	1,979					
Five years later.....	12,911	2,093	3,096	11,348						
Six years later.....	12,911	2,093	3,096	11,348						
Seven years later.....	12,911	2,093	3,096							
Eight years later.....	12,911	2,093								
Nine years later.....	12,911									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	325	—	—	(3,567)	261	16	63	6,902	(6,145)	—

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