North Carolina

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2011

Featured on the CAFR cover are scenes from the 2011 North Carolina State Fair. Photos courtesy of the North Carolina Department of Agriculture.

Facts About the North Carolina State Fair

- The North Carolina State Fair is the largest 11-day event in North Carolina.
- The 2011 State Fair reached one million in attendance for the second straight year.
- The 2011 State Fair had a gross revenue of $10.3 million from all sources.
- The State Fair each year creates several thousand jobs for its 11-day run.
- The Fair is managed and produced by the N.C. Department of Agriculture & Consumer Services and is consistently ranked among the top 25 fairs in North America.
- The first N.C. State Fair took place 158 years ago in 1853.
- More than 234,000 pounds of canned food was donated by 2011 fair patrons for the Food Lion Hunger Relief Day on Thursday, Oct. 20. The food benefits the Food Bank of Central and Eastern North Carolina.
- The 2011 State Fair played host to a variety of musical acts, including country music legend George Jones, Christian rockers Skillet, R&B icon Dionne Warwick and North Carolina's own Kellie Pickler.
- The Village of Yesteryear, which features crafters and artisans from across the state, marked its 60th anniversary at the 2011 State Fair.

"It was another wonderful fair," said Agriculture Commissioner Steve Troxler. "Attendance was 1,009,173, our second-highest total ever. For the most part we had fantastic weather, and the final weekend was absolutely beautiful. Having good weather led to above-average attendance on all but one day of the fair."

"I cannot thank fairgoers enough for their continued support," Troxler said. "I hope they're already marking their calendars for Oct. 11-21, 2012. I know we're eager to start planning for it."

For more information about the North Carolina State Fair, please refer to the About Us section on www.ncstatefair.org.

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2011

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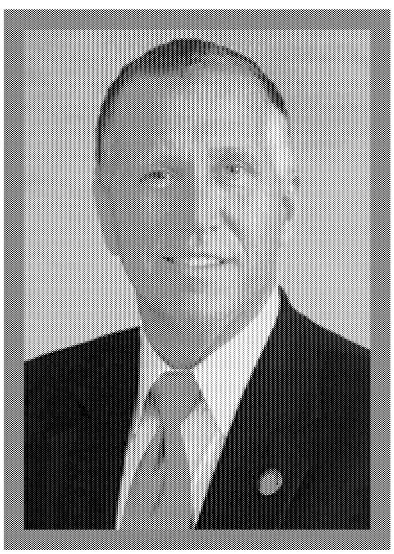
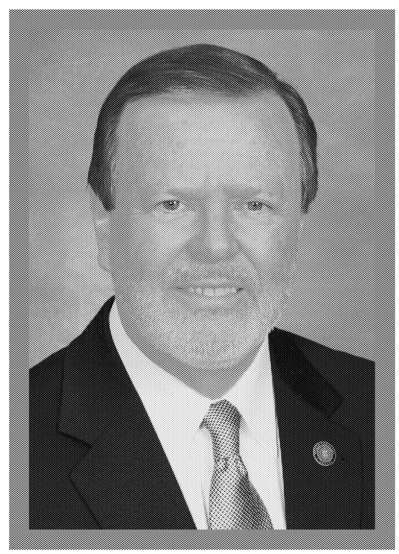
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.

BEVERLY E. PERDUE
Governor of North Carolina



REPRESENTATIVE THOM TILLIS
Speaker of the House
North Carolina General Assembly



SENATOR PHILIP BERGER
President Pro Tempore
North Carolina General Assembly

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For the Fiscal Year Ended June 30, 2011

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INTRODUCTORY SECTION

State of North Carolina
Office of the State Controller

DAVID T. MCCOY
STATE CONTROLLER

The Honorable Beverly E. Perdue, 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 2011 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.

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

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

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

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Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 9.69 million, making it the 10th most populated state in the nation. Sixty percent of the population is found in urban areas, while forty percent is found in rural 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 79,330 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 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.

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...."

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, Golden LEAF, Inc., North Carolina Housing Finance Agency, North Carolina State Education Assistance Authority, 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 k-12 public 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 State 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 (OSBM) 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 FY 2010-11, the economic recovery struggled to gain traction. The weak recovery occurred despite the fact it had been a year since the Great Recession ended. The National Bureau of Economic Research officially dated the end of the recession as June 2009. Nevertheless, economic conditions in the State, as well as the nation, did not reflect a recovering economy. Employment losses were still occurring in some industry sectors, while other sectors were experiencing very little job growth. Additionally, the end of the economic recession did not mark the end of the housing recession, which was a precursor to the economic downturn.

Both employer and consumer sentiment showed little signs of an economic recovery. The structural problems in the housing and financial markets that sent us into a recession historically have taken much longer to correct and are followed by much slower, prolonged recovery phases. This recovery was proving to be no different. At best, a very modest economic expansion began during the fiscal year. In fact, at no time during the fiscal year did the annualized growth rate of the nation's Gross Domestic Product (a broad measure of economic activity) equal or exceed the long-run average of 3.1 percent. Given the severe contraction the economy went through, a more robust recovery that exceeded the long-run average might have been expected.

During the fiscal year, the State's economy added 39,200 private sector jobs and total wage and salary income increased by an estimated 2.9 percent. By the end of the fiscal year, there were still 270,000 fewer people employed than at the start of the recession. Annual growth in total wage and salary income increased by 2.3 percent the first quarter of the fiscal year and continued to improve with an estimated 2.7 percent rate of growth in the last quarter. It is anticipated that both employment and income will continue to improve for the rest of 2011, but at a slow pace. Moderate job growth is not expected until the second half of 2012. The result will be high unemployment rates for the rest of 2011 and most, if not all, of 2012.

National Economic Outlook

United States Economic Indicators	FY2009-10 Actual	FY2010-11 Actual	FY2011-12 Projected	FY2012-13 Projected
Economic growth (GDP)*	1.90%	1.50%	2.10%	3.20%
Personal Income	-0.50%	4.10%	5.20%	6.70%
Corporate Pre-Tax Profits	42.00%	11.20%	0.10%	5.00%
Retails Sales and Food Services	1.20%	7.30%	5.20%	6.40%
CPI	1.00%	2.00%	2.40%	2.60%
30-yr Fixed Mortgage Interest Rate	5.00%	4.30%	4.90%	6.20%

***Adjusted for inflation**

The aftermath of the global financial crisis, along with the persistent declines in the housing market, assured that weak economic conditions would persist throughout the fiscal year. Subsequent economic shocks in the spring of 2011, including the rapid increase in gas prices and weather related supply disruptions, made it difficult for the recovery to gain traction. The economy remained in a below-normal growth pattern throughout the fiscal year and the nation's prospects are for subpar economic growth for 2011 and most, if not all, of 2012.

The economic indicators convey the impact the recession had on the nation and the abysmal rate of the recovery experienced during the fiscal year. Little economic growth is expected over the next year with only modest improvements the second-half of 2012. The overall economy experienced very little growth in FY 2010-11, recording only a 1.5 percent increase in GDP. The economy appeared poised to move into a strong recovery phase with annualized growth in GDP the third quarter of 2010 of 2.5 percent. By the second quarter of 2011, growth had slowed to 1.3 percent. Rapidly rising gas prices, supply disruptions from Japan's natural disaster and the weather-related problems here in the US, along with Eurozone debt problems all created a drag on economic growth that last quarter.

The ongoing problems in the housing market and stagnant employment growth, means the economy will struggle to rebound, and in FY 2011-12, is expected to grow by only 2.1 percent. The following fiscal year, FY 2012-13, economic growth is expected to be near the long-term average growth rate of 3.1 percent. The below average growth during this phase of the recovery means significant improvements in employment are going to take longer to develop. However, in FY 2010-11, despite the sluggish economic recovery and very little gain in employment, total personal income rose by 4.1 percent. Employment conditions are expected to remain weak, but will advance sufficiently enough to help personal income grow by 5.2 percent in FY 2011-12.

Additionally, given the persistently slow recovery, business profitability, which saw a major rebound in 2009 and 2010, is expected to level-off in 2011. Many businesses coming out of the recession were bolstered by a global economic recovery. Export demand grew significantly early in the fiscal year improving the balance sheets for many businesses. The subsequent sovereign debt crisis, which mostly affected European countries, has softened export growth and lowered expectations for continued profit growth over the next year. The result has been business investment has softened and hiring decisions continue to be put on hold.

A good indicator on the health of the economy is retail sales. This key indicator experienced a strong rebound in FY 2010-11, coming off anemic growth of 1.5 percent the preceding fiscal year. Consumers were hit hard during the economic downturn as household wealth declined, credit markets tightened, inflation-adjusted wages fell, and the employment picture remained cloudy. For consumer spending to strengthen the real estate and financial markets will need to stabilize, and an improving employment picture will need to emerge.

To summarize the national outlook, the Great Recession that began in December 2007, and ended June 2009, continued to impact economic conditions for most of the fiscal year. Part of what was fueling economic growth, a global economic recovery, was set back with the realization of sovereign debt issues plaguing many industrialized nations. Thus, an already projected slow recovery was dragged down even further. This set the stage for a sluggish recovery with economic conditions marked by high unemployment and lower consumer spending. These conditions are expected to persist for all of 2011 and into 2012. A robust economy is not anticipated until the later part of 2012 or the beginning of 2013, five years after the Great Recession had technically ended.

North Carolina Economic Outlook

North Carolina Economic Indicators	FY2009-10 Actual	FY2010-11 Actual	FY2011-12 Projected	FY2012-13 Projected
State Gross Product	3.40%	3.70%	3.60%	6.00%
Personal Income	1.60%	4.00%	4.20%	7.20%
Wages & Salaries	-0.90%	2.70%	5.30%	6.90%
Retail Sales	0.80%	7.70%	5.00%	4.60%
Unemployment Rate	11.10%	9.90%	10.10%	9.40%
Employment (Nonagricultural)	-4.00%	0.10%	0.30%	1.20%
Existing Single-family Home Sales	16.40%	-17.30%	16.20%	24.40%

For North Carolina, as with the nation, the end of the recession did not begin a period of strong employment gains. While the recession ended twelve months prior to the start of the fiscal year, many key economic indicators suggested recession-like conditions were enduring across the State. The State's economy only added 39,200 private sector jobs to a workforce of nearly four million and total wage and salary income increased by a modest 2.7 percent. By the end of the fiscal year, there were still 270,000 fewer people employed than at the start of the recession. Some sectors experienced modest growth, but employment in sectors tied to the housing market such as construction and home furnishings continued to decline. The employment picture in the State weakened during the fiscal year in concert with the global and national slowdown.

Projections for the State's 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 does not return to the long-run average growth rate until FY 2012-13. This is indicative of the anticipated slow, prolonged recovery in the State. Personal income is improving. For FY 2010-11, it rose 4.0 percent, but the increase lags behind the growth of 6 to 7 percent experienced several years prior to the onset of the Great Recession. Wage and salary income rebounded from a decline the previous year and grew at 2.7 percent for the fiscal year. The modest rise in wage and salary income was consistent with the losses in total employment coming to an end. Going forward, improved growth in total income is projected. This growth will result from gradually improving employment, wage increases, and increase in the number of hours worked. A return in wage and salary income to long-term growth levels is forecast for 2012.

As with the nation, the recovery was tediously slow during FY 2010-11. The slow recovery meant few jobs were being created and the unemployment rate at the end of the fiscal year was at 9.9 percent. Despite a weak economy and high unemployment, retail sales rebounded with 7.7 percent growth. The growth, while impressive, follows a 7.8 percent drop two years earlier and almost no growth in FY 2009-10. Retail sales are expected to mirror the slow, gradual improvement of the economy, but will rise to the long-term average growth rate of 5 percent at the start of 2012. The increased projection in sales reflects the anticipated improvement in employment and household incomes.

As the State's economy begins to turn the corner in the recovery, employment prospects are gradually expected to improve, but a robust employment climate is not projected until 2013. Even with the improving employment picture, growth will be slow and the unemployment rate will remain elevated in the 9 to 10 percent range. By the end of calendar year 2011, only a few industries are expected to experience growth over the previous year with net growth well below 1 percent. For

2012, modest improvement is expected with total employment increasing at a rate of 1 percent by the end of year. This level of growth will not be sufficient to lower the unemployment rate significantly, and the rate is projected to average 10.1 percent for FY 2011-12, and 9.4 percent for FY 2012-13.

In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 percent per quarter. The State's manufacturing sector again was vulnerable to the recession and job losses in this industry sector reached double-digit levels. By the end of the fiscal year, the manufacturing sector had added only 2,000 jobs and employed 98,000 fewer people than at the start of the recession. Another hard hit industry has been the financial sector. The financial market upheaval had a detrimental impact on this sector's employment, but it began to rebound the first half of 2010 and is now near pre-recession levels.

The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. The housing recession that began in 2006, appeared to be ending at the start of 2010. Existing home sales in the State saw double-digit growth the first-half of that year. The second half of the year erased those gains and since then existing home sales have been losing ground. Tough credit conditions, exacerbated by mounting foreclosures, continue to prolong the return to a solid housing market. There has been some anticipation that low mortgage interest rates may help with the recovery, but thus far, have had little noticeable impact despite being at record lows. A turnaround in residential markets is projected by the spring of 2012 as market corrections finally start to take hold.

The slow economic recovery that persisted throughout FY 2010-11, was largely due to structural imbalances in the housing and financial sectors. These imbalances have had a profound affect on the State's economy and are taking a long time to correct. Ongoing weaknesses in the global economy have exacerbated the pace of the economic recovery both in the US and the State. A return to a full expansionary economy is not projected until the end of 2012, five years after the onset of the recession. Until then, the housing market should begin to gradually improve and steady improvements in household income and consumer spending are anticipated.

— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 14, 2011

Issues and Observations

Facts and Figures

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family.

- North Carolina's population has grown by 1.49 million, or 18.2 percent over the last 10 years.
- Road lane miles have grown by 1,247 miles, or 1.6 percent since 2000, with an additional 725 bridges since 2002.
- State Highway Patrol vehicles have increased from 1,956 in 2002 to 2,580 in 2011.
- Private vehicles registered have grown from 7.34 million in 2001 to 8.34 million in 2011.
- K-12 public school enrollment has increased by 14.8 percent, from 1.286 million in 2002 to 1.476 million in 2011.
- University enrollment has increased by 38,386, or 23.6 percent over the last 10 years.
- Community college enrollment has increased by 97,389, or 63.8 percent over the last 10 years.
- Medicaid beneficiaries have grown by 129,462, or 8.4 percent over the last 7 years.
- Food stamp recipients have increased by 776,331, or 98.1 percent over the last 7 years.
- Incarcerated or supervised offenders have increased by 8,174 over the last 9 years.
- The number of employed have grown by 253,293, or 6.7 percent over the last 10 years. However, the number of unemployed has grown by 250,569, or 127.3 percent. In 2011, the unemployment rate is 9.9 percent. The unemployment rate was only 4.9 percent in 2001.
- Positions funded by the State budget have increased overall by 40,430, or 14.3 percent over the last nine years. The largest areas of position growth occurred related to primary and secondary education, 17,277 (12.3 percent growth); universities, 13,303 (26.8 percent growth); community colleges, 5,787 (41.5 percent growth); and health and human services, 1,566 (8.3 percent growth).
- With an aging State workforce, accelerating numbers of retirements, lower investment rates of return, lower funded levels, and rising healthcare costs, the obligations related to State-funded pensions and retiree healthcare obligations continue to grow. For the Teachers' and State Employees' Retirement System (TSER), the number of retirees/beneficiaries has grown from 107,743 in 2001, to 163,938 in 2011, an increase of 56,195, or 52.2 percent. Active employees included in TSER have grown to 324,683, an 11.1 percent increase during the same period. There are an additional 102,149 former employees that will be eligible for retirement benefits in the future.
- State debt has increased from $3.06 billion in 2001, to $8.48 billion in 2011, an increase of $5.4 billion, or 177.6 percent. Debt per capita has grown from $373 per capita to $890 per capita during the same period.
- The taxpayer burden related to individual income tax has shifted by 5.6 percent from those earning less than $75,000 in taxable income, to those earning more than $75,000 from 2000 to 2009.
- The average effective state individual income tax rate has ranged from 3.1 percent to 2.6 percent from 2000 to 2009.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

Effective for the year ended June 30, 2011, state and local governments were required to implement GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, i.e., the General Fund, Highway Fund, Highway Trust Fund, other special revenue funds, permanent funds, and capital projects funds.

A key feature of interest in this standard is a reevaluation of CAFR fund classification based on generally accepted accounting principles (GAAP) as defined by the GASB.

An area of emphasis in GASB Statement No. 54 relates to the appropriate classification of special revenue funds. 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 (other than debt service or capital projects). The term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

Historically, state and local governments have established hundreds of separate funds, even though best practice is to strive to establish a minimum number of funds. GAAP-based financial reporting standards do not require separate fund usage for either specific revenues or specific activities. That is, GAAP does not require all restricted road and bridge taxes, for example, to be reported in separate special revenue funds. Therefore, some governments report those revenues in their general fund and while other governments may have used one or more funds. Similarly, GAAP does not require governments to report their significant activities (or any other specific function or program) in a separate fund.

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

The following funds previously reported as special revenue funds are the significant examples of funds reclassified to the General Fund as committed fund balance for GAAP reporting purposes in the 2011 CAFR:

1. **Clean Water Management Trust Fund**– This fund is supported mostly by appropriations transferred from the General Fund.
2. **Health and Wellness Trust Fund –** This fund is mostly supported with tobacco settlement money transferred from the General Fund.
3. **Tobacco Trust Fund** – This fund is mostly supported with tobacco settlement money that is transferred in from the General Fund.
4. **Education Lottery Funds –** The revenue support for this is the transfer from the North Carolina State Lottery enterprise fund. Since the funds go to support the General Fund operations for education, the fund will be presented in the General Fund.
5. **Public School Building Capital Fund -** This fund is funded by appropriations transferred in from the General Fund.
6. **Educational Materials and School Buses Fund** –This is mostly funded by appropriations from the General Fund.

These proposed reclassifications would have no affect on the State's budgetary basis fund availability.

Other Post-Employment Benefits: Retiree Healthcare

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (effective for fiscal year 2006-07), and in June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (effective for fiscal year 2007-08).

The actuarial data for the retiree healthcare benefit plan is disclosed in Note 14, Other Postemployment Benefits, based on the disclosure requirements for a cost-sharing, multiple-employer plan, and is also presented as required supplementary information (RSI). Based on the disclosure requirements of a cost-sharing, multiple-employer plan, the unfunded actuarial liability is not recorded as an accounting liability.

The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay the retiree health benefit. Based on the current funding method with limited accumulation of funds, the actuarial assumptions reflect a short-term discount rate of 4.25 percent. The December 31, 2010 actuarial valuation using the projected unit credit cost method indicated an accrued liability of $33.495 billion for the retiree healthcare plan ($32.839 billion unfunded), with an annual required contribution (ARC) of $2.911 billion.

Participating employers in the retiree health care benefit plan include the primary government state employees, local education agencies (LEAs), the University of North Carolina System, community colleges, and several local governments. For the fiscal year ended June 30, 2011, retiree healthcare employer contributions were $743.659 million, representing an annual increase of 9.56 percent. Retiree healthcare premium costs paid to the State Health Plan were $652.627 million, representing an annual increase of 13.03 percent. Plan net assets of $703.959 million represent an increase of $97.923 million, or 16.16 percent from the prior year.

Timeliness of Financial Reporting

Over the last several years, momentum and focus has grown related to the need for improved timeliness of financial reporting for state and local governments. In addition to, and in concert with, statements made by representatives of the Securities and Exchange Commission (SEC), representatives of the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), the National Association of State Auditors, Comptrollers, and Treasurers (NASACT), the American Institute of Certified Public Accountants (AICPA), and the municipal bond industry have begun to emphasize the need for improved timeliness. The most basic accounting principles recognize that financial information must be timely in order to be relevant and useful to decision-makers.

Currently, state and local governments, and colleges and universities, must issue their financial statements by December 31 in order to meet GFOA Certificate of Achievement for Excellence in Financial Reporting Award standards. SEC guidance requires that publicly-traded companies report within 60 to 90 days of fiscal year end. A national sample of comparable public state universities with June 30 year ends, reflect financial statements issued as early as September 10, with commonly found issue dates on or before September 30.

Various state governments have established goals for improved timeliness to span over the next two to three years. Four months following the fiscal year end has been mentioned as a target date for acceptable timeliness for state governments. With October 31 as a reference for completion, all financial information for entities falling within the state government reporting entity must be completed on an accelerated schedule as well. Each branch of reporting must accelerate in order for the top level government to have more timely reporting. Additionally, actuarial studies must be completed sooner, year-end budgets must be closed more expeditiously, accounting system processes must be streamlined, and audit contracts and schedules must be amended.

GASB continues to issue new accounting and financial reporting guidance. With limited resources to implement new standards, more lead time to implement will be necessary. As most state governments operate on a cash budgetary basis, specific emphasis must be directed towards the year-end GAAP conversion process, data compilation from various entities outside of the State's primary accounting system, and methods of estimation.

Given this new emphasis, all aspects of the accounting and reporting functions of the State and its component units must be evaluated with timeliness in mind. The State has begun the process of review and improvement. As a triple-A rated state, and as a leader in the state government financial community, we are committed to taking the necessary steps to make our financial statements more relevant, useful, and timely.

GASB Pension Accounting and Reporting

In July, GASB issued two Exposure Drafts proposing changes to financial reporting of pensions by state and local governments: *Accounting and Financial Reporting for Pensions* and *Financial Reporting for Pension Plans*. The documents offer amendments to the existing pension standards and changes how the costs and obligations associated with the pensions that governments provide to their employees are calculated and reported. Under the proposal, all assumptions of returns and costs would be consistent with the American Academy of Actuaries' Actuarial Standards of Practice, unless otherwise specified by the GASB.

The first Exposure Draft, *Accounting and Financial Reporting for Pensions* (*AFRP Draft*), primarily relates to **reporting by governments that provide pensions to their employees**. A second related Exposure Draft, *Financial Reporting for Pension Plans*, (*FRPP Draft*), addresses the **reporting by the pension plans** that administer those benefits.

The *AFRP Draft* provides that governments are to be required to report in their statement of financial position a *net pension liability* (the difference between the total pension liability and net assets (primarily investments reported at fair value) set aside in a qualified trust to pay benefits to current employees, retirees, and their beneficiaries). It also proposes changes to the manner in which a government would calculate its total pension liability and pension expense including:

- Immediate recognition of more components of pension expense than is currently required, including the effect on the pension liability of changes in benefit terms, rather than deferral and amortization over as many as 30 years which is common for funding purposes.
- Use of a discount rate that combines (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments and (b) the interest rate on a tax-exempt 30-year AA/Aa-or-higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- A single actuarial cost allocation method "entry age normal" rather than the current choice among six actuarial cost methods.
- Requiring governments participating in cost-sharing multiple employer pension plans to record a liability equal to their proportionate share of any net pension liability for the cost-sharing plan as a whole.
- Requiring governments in all types of covered pension plans to present more extensive note disclosures and required supplementary information.

The *FRPP Draft*, which addresses financial reporting for plans that are administered through qualified trusts, outlines the basic framework for the separately issued financial reports of *defined benefit* pension plans. It also details proposed note disclosure requirements for *defined contribution* pension plans.

The intent of the proposed changes is to make it easier to compare the health of pension funds from one state to the next. One set of proposed changes relates to the accounting methods used by states to calculate their pension liabilities. Under GASB's current reporting standards, governments can choose from six different accounting methods. Contrary to the current process, the new rules would have all states using the same method. The current system takes a "funding-based" approach that focuses on how much states pay into the pension fund each year. The new system would take an "accounting-based" approach that employs a longer-term view to ensure that the overall costs of providing benefits are accounted for.

Other proposed changes relate to how pension funds calculate investment returns. Differences between projected earnings on pension plan investments and actual earnings would be deferred and incorporated into the pension expense calculation over five years. In addition, governments would no longer be able to use historical rates of return to determine their long-term liabilities if they haven't set aside enough money to pay retirees. Instead, states will have to use a combination of a historical rate of return and a lower rate pegged to the municipal bond market, which will make their long-term liabilities appear larger.

Currently, governmental reporting standards do not require that future pension liabilities be included or disclosed on a governmental balance sheet. Instead, those details can be included in the financial statements notes. Under the new rules, this information will appear in the body of a state's balance sheet. As a result, policy makers, lawmakers, investors, the press and public would be provided with a more transparent perspective of the state's fiscal condition.

It is very important to note that the proposals will have the effect of making a state's long-term finances appear to be worse because the unfunded liability has not previously been on the balance sheet; it has been disclosed, but only in the notes, not on the balance sheet. Adding a large liability to the balance sheet will make the government's net position lower, and give the appearance that it is in a weaker position. The economic reality, of course, is that nothing has changed except the presentation of the report.

Hurricane Irene

Hurricane Irene made landfall in eastern North Carolina on August 27. Early estimated losses totaled approximately $425 million (including $320 million related to agriculture and crop damage). Residents in 38 counties are eligible for federal individual assistance for recovery costs and 37 counties are eligible for federal public assistance including low-interest loans and grants to help individuals and public entities recover. In addition, farmers in 42 counties are eligible for disaster assistance from the United States Agriculture Department.

The State will provide funds to satisfy the matching requirement for federal assistance. This 25% match requirement is only applied to the non-agriculture damage that has occurred, which at this point is approximately $29.66 million (based on estimates of $139.1 million in damage to non-agriculture entities). It is anticipated the 25% match will be paid out over a number of fiscal years.

Debt Affordability

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 produces the *Debt Affordability Study* on an annual basis. The report was created to serve as a tool for sound debt management practices by the State of North Carolina. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. The report also provides a methodology for measuring, monitoring and managing the State's debt levels. The concept of debt affordability is widely regarded as an essential management tool. The methodology used in the study to analyze the State's debt position incorporates historical and future trends in debt levels, peer group comparisons and provides recommendations within adopted guidelines. The study also provides recommendations regarding other debt management related policies considered desirable and consistent with the sound management of the State's debt. Such recommendations were developed by incorporating management practices consistent with those utilized by the most highly rated states.

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, 2010. This was the 17th consecutive year (1994 to 2010) 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) 981-5454.

Respectfully submitted,

David T. McCoy

David T. McCoy
State Controller

December 8, 2011

CERTIFICATE OF ACHIEVEMENT

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, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

EXECUTIVE BRANCH

Council of State

Governor
Beverly E. Perdue

Lieutenant Governor
Walter Dalton

Secretary of State
Elaine F. Marshall

State Auditor
Beth Wood

State Treasurer
Janet Cowell

Superintendent of Public Instruction
Dr. June St. Clair Atkinson

Attorney General
Roy A. Cooper, III

Commissioner of Agriculture
Steven W. Troxler

Commissioner of Labor
Cherie K. Berry

Commissioner of Insurance
Wayne Goodwin

Cabinet Secretaries — Appointed by the Governor

Administration
Moses Carey, Jr.

Correction
Alvin W. Keller, Jr.

Crime Control and Public Safety
Reuben F. Young

Cultural Resources
Linda A. Carlisle

Commerce
J. Keith Crisco

Environment & Natural Resources
Dee Freeman

Health and Human Services
Lanier M. Cansler

Juvenile Justice and Delinquency Prevention
Linda W. Hayes

Revenue
David W. Hoyle

Transportation
Eugene A. Conti, Jr.

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

General Assembly

Senate

President
Lieutenant Governor
Walter Dalton

President Pro Tempore
Philip Berger

Deputy Pres. Pro Tempore
James Forrester

Majority Leader
Harry Brown

Minority Leader
Martin L. Nesbitt, Jr.

House of Representatives

Speaker
Thom Tillis

Speaker Pro Tempore
Dale R. Folwell

Majority Leader
Paul Stam

Minority Leader
Joe Hackney

JUDICIAL BRANCH

North Carolina Supreme Court

Chief Justice
Sarah Parker

Associate Justices
Mark D. Martin
Robert H. Edmunds, Jr.
Paul M. Newby
Patricia Timmons-Goodson
Robin E. Hudson
Barbara Jackson

Administrative
Office of the Courts
Judge John W. Smith, II
Director

Component Units

- *University of North Carolina System*
- *The Golden LEAF, Inc.*
- *N.C. Housing Finance Agency*
- *Community Colleges*
- *State Education Assistance Authority*
- *State Health Plan*
- *Other Component Units*

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

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FINANCIAL SECTION

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Telephone: (919) 807-7500
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Internet http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina

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, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 2 percent and 25 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Turnpike Authority, which is a major enterprise fund and represents 40 percent and 0.45 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 6 percent, 3 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.
- The financial statements of the State Education Assistance Authority, which represent 15 percent, 3 percent, and 2 percent, respectively, of the assets, net assets, 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 assets, 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, 6 percent, and 5 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information.
- Cash basis claims and benefits of the State Health Plan, which represent 17 percent of the expenses of the aggregate discretely presented component units.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the State Education Assistance

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Audit Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23 to the financial statements, the State implemented Governmental Accounting Standards Board Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 59 - *Financial Instruments Omnibus* during the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2011 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* and should be considered in assessing the results of our audit. The report on internal control and on compliance and other matters will be published at a later date in the State of North Carolina's *Single Audit Report*.

The management's discussion and analysis and required supplementary information, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 introductory section, the combining fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 8, 2011

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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, 2011. 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 assets increased by $2.064 billion or 6.48% as a result of this year's operations. Net assets of governmental activities increased by $2.162 billion, or 6.71%, due in part to spending reductions and the slow economic and revenue recovery. Net assets of business-type activities decreased by $98.189 million, or 26.39%, due to a substantial operating loss in the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled $34.365 billion and negative $470.257 million, respectively.

— Component units reported net assets of $19.122 billion, an increase of $1.741 billion or 10.02% from the previous year. The majority of the net asset increase is attributable to the University of North Carolina System, a major component unit.

Fund Financial Statements:

— The fund balance of the General Fund nearly doubled from $594.653 million at June 30, 2010 (as restated) to $1.184 billion at June 30, 2011. This improvement is attributable primarily to agency allotment reductions.

— The fund balance of the Highway Fund decreased from $780.964 million at June 30, 2010 (as restated) to $647.962 million at June 30, 2011, a decrease of 17.03%. A focus on completing projects funded from the latest GARVEE bond issuance contributed to the decrease.

— The fund balance of the Highway Trust Fund increased from $47.498 million at June 30, 2010 (as restated) to $186.866 million at June 30, 2011.

— The net assets of the Unemployment Compensation Fund decreased from negative $1.701 billion at June 30, 2010 to negative $1.969 billion at June 30, 2011. The decrease is directly related to the decline in the state and national economies. The state unemployment rate was 9.9% in June 2011.

— Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 2.82% from the previous fiscal year to $1.46 billion. As required by law, the Lottery's net profit of $436.241 million was transferred to the General Fund to support educational programs.

— The net assets of the N.C. Turnpike Authority increased from $99.285 million at June 30, 2010 to $190.34 million at June 30, 2011. The Triangle Expressway System, the first toll facility in North Carolina, is under construction and will include electronic tolling systems. The project is currently on schedule and estimated to be completed as planned.

Capital Assets:

— The State's investment in capital assets (net of accumulated depreciation) was $40.208 billion, an increase of 5.76% from the previous fiscal year-end.

— This year's major capital asset additions were for State highway system construction ($2 billion), toll road construction ($383 million), construction of correctional facilities ($89.8 million), and construction of the Green Square Complex ($56.5 million).

Long-term Debt:

— The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of $8.461 billion, an increase of 4.43% from the previous fiscal year-end. The State issued $500 million in limited obligation bonds for its governmental activities. Additionally, the N.C. Turnpike Authority, a business-type activity, issued $233.92 million in revenue bonds and had additional borrowings of $195.8 million from a federal transportation loan.

— In February 2011, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's proactive responses and history of taking early action to mitigate the impact of revenue declines. North Carolina remains one of only eight 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 Assets 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 Assets (page 54) presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 56 and 57) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets 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).

Both statements report three activities:

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 78. All 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 165 and 166).

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 190 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 Assets and Changes in Fiduciary Net Assets. These funds include pension and other employee benefit trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 76 of this report.

Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 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 assets serve as a useful indicator of whether a government's financial position is improving or deteriorating. The State's combined net assets increased $2.064 billion or 6.48% over the course of this fiscal year's operations. The net assets of the governmental activities increased $2.162 billion or 6.71% and business-type activities decreased $98.189 million or 26.39%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2011 and 2010
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
Current and other non-current assets	$ 8,911,769	$ 9,222,316	$ 2,900,808	$ 2,726,646	$ 11,812,577	$ 11,948,962
Capital assets, net	39,469,307	37,659,938	738,504	357,282	40,207,811	38,017,220
Total assets	48,381,076	46,882,254	3,639,312	3,083,928	52,020,388	49,966,182
Long-term liabilities	8,940,440	8,933,583	3,704,985	2,878,252	12,645,425	11,811,835
Other liabilities	5,075,325	5,745,701	404,584	577,744	5,479,909	6,323,445
Total liabilities	14,015,765	14,679,284	4,109,569	3,455,996	18,125,334	18,135,280
Net assets:						
Invested in capital assets, net of related debt	37,419,430	35,658,528	294,158	173,375	37,713,588	35,831,903
Restricted	729,100	704,715	3,131	1,081,220	732,231	1,785,935
Unrestricted	(3,783,219)	(4,160,273)	(767,546)	(1,626,663)	(4,550,765)	(5,786,936)
Total net assets	$ 34,365,311	$ 32,202,970	$ (470,257)	$ (372,068)	$ 33,895,054	$ 31,830,902

The largest component of the State's net assets ($37.714 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 assets are the next largest component ($732.231 million). Net assets are 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 assets, consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide statement of net assets for governmental activities reflects a negative $3.783 billion unrestricted net asset 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 $7.626 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2011, $5.5 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 selling general obligation bonds and funneling 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 assets (reflected in the unrestricted net asset component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances. Additionally, as of June 30, 2011, the State's governmental activities have significant unfunded liabilities for a court judgment payable of $731.703 million and compensated absences of $412.619 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 asset balance for governmental activities.

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

Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
Revenues:						
Program revenues:						
Charges for services	$ 2,078,118	$ 2,075,743	$ 2,898,845	$ 2,598,612	$ 4,976,963	$ 4,674,355
Operating grants and contributions	15,632,258	15,837,802	2,998,114	3,251,109	18,630,372	19,088,911
Capital grants and contributions	1,198,549	711,433	11,687	7,771	1,210,236	719,204
General revenues:						
Taxes						
Individual income tax	10,020,535	9,345,441	—	—	10,020,535	9,345,441
Corporate income tax	1,132,931	1,252,800	—	—	1,132,931	1,252,800
Sales and use tax	6,172,377	5,916,119	—	—	6,172,377	5,916,119
Gasoline tax	1,675,476	1,557,430	—	—	1,675,476	1,557,430
Franchise tax	794,091	904,651	—	—	794,091	904,651
Highway use tax	469,811	439,506	—	—	469,811	439,506
Insurance tax	501,032	506,990	—	—	501,032	506,990
Beverage tax	311,809	295,383	—	—	311,809	295,383
Inheritance tax	24,184	71,731	—	—	24,184	71,731
Tobacco products tax	291,699	278,406	—	—	291,699	278,406
Other taxes	301,217	321,945	—	—	301,217	321,945
Tobacco settlement	131,318	145,539	—	—	131,318	145,539
Unrestricted investment earnings	32,980	28,645	—	—	32,980	28,645
Miscellaneous	45,014	37,253	3	—	45,017	37,253
Total revenues	40,813,399	39,726,817	5,908,649	5,857,492	46,722,048	45,584,309
Expenses:						
General government	1,123,257	1,065,584	—	—	1,123,257	1,065,584
Primary and secondary education	10,006,402	9,830,183	—	—	10,006,402	9,830,183
Higher education	4,308,475	4,232,266	—	—	4,308,475	4,232,266
Health and human services	16,837,927	16,762,910	—	—	16,837,927	16,762,910
Economic development	744,796	716,224	—	—	744,796	716,224
Environment and natural resources	608,903	526,178	—	—	608,903	526,178
Public safety, corrections and regulation	2,796,375	2,616,888	—	—	2,796,375	2,616,888
Transportation	2,177,142	1,998,234	—	—	2,177,142	1,998,234
Agriculture	114,474	118,847	—	—	114,474	118,847
Interest on long-term debt	307,917	281,058	—	—	307,917	281,058
Unemployment compensation	—	—	4,420,762	5,568,561	4,420,762	5,568,561
N.C. State Lottery	—	—	1,028,536	994,168	1,028,536	994,168
EPA Revolving Loan	—	—	42,897	30,940	42,897	30,940
N.C. Turnpike Authority	—	—	4,940	4,990	4,940	4,990
Regulatory programs	—	—	78,653	67,330	78,653	67,330
Insurance programs	—	—	36,885	13,118	36,885	13,118
North Carolina State Fair	—	—	13,595	12,794	13,595	12,794
Other business-type activities	—	—	9,148	9,563	9,148	9,563
Total expenses	39,025,668	38,148,372	5,635,416	6,701,464	44,661,084	44,849,836
Increase (decrease) in net assets before contributions and transfers	1,787,731	1,578,445	273,233	(843,972)	2,060,964	734,473
Contributions to permanent funds	3,188	3,101	—	—	3,188	3,101
Transfers	371,422	434,067	(371,422)	(434,067)	—	—
Increase (decrease) in net assets	2,162,341	2,015,613	(98,189)	(1,278,039)	2,064,152	737,574
Net assets - beginning - restated	32,202,970	30,187,357	(372,068)	905,971	31,830,902	31,093,328
Net assets - ending	$ 34,365,311	$ 32,202,970	$ (470,257)	$ (372,068)	$ 33,895,054	$ 31,830,902

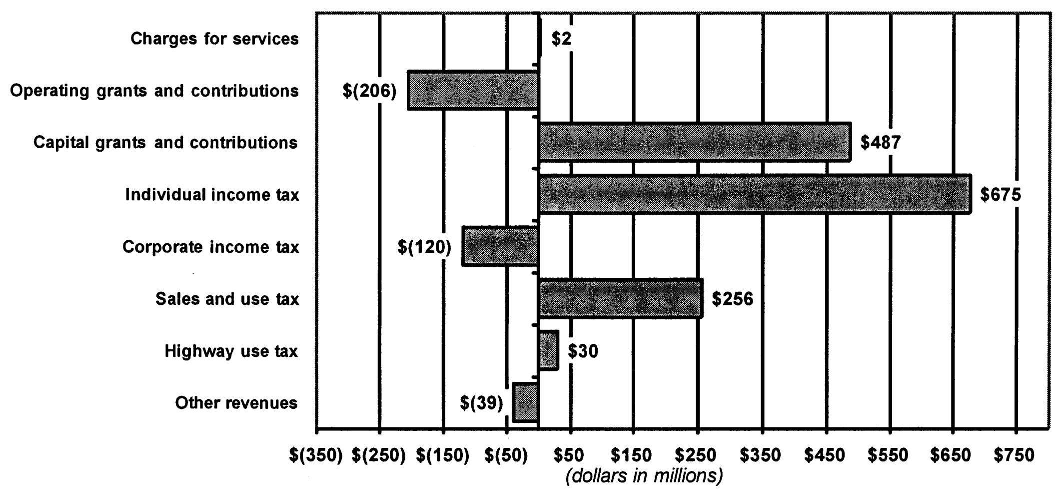
Governmental Activities

The State's total revenues for governmental activities grew more rapidly than total expenses during fiscal year 2011. Revenues increased by 2.74% ($1.09 billion), while total expenses increased by 2.3% ($877.3 million). The small growth in revenues is attributable mainly to the slow economic and revenue recovery and additional federal funding for transportation improvement projects.

On February 17, 2009 the U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). A direct response to the economic crisis, the ARRA has three immediate goals: 1) create new jobs as well as save existing ones, 2) spur economic activity and invest in long-term economic growth, and 3) foster unprecedented levels of accountability and transparency in government spending. To help achieve these goals, the ARRA provides supplemental funding to states for budget stabilization, entitlement programs (Medicaid and extension of unemployment benefits), and other purposes. The ARRA specifies that funds be distributed over three years: 2009, 2010, and 2011. In response to this legislation, the Governor established the North Carolina Office of Economic Recovery and Investment to coordinate the State's handling of ARRA funds and state-level economic recovery initiatives. During the 2011 fiscal year, the State's governmental activities recognized $2.27 billion of ARRA funds (federal recovery funds), which are included in operating grants and contributions (i.e., program revenues).

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2010 and 2011:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2010 and 2011



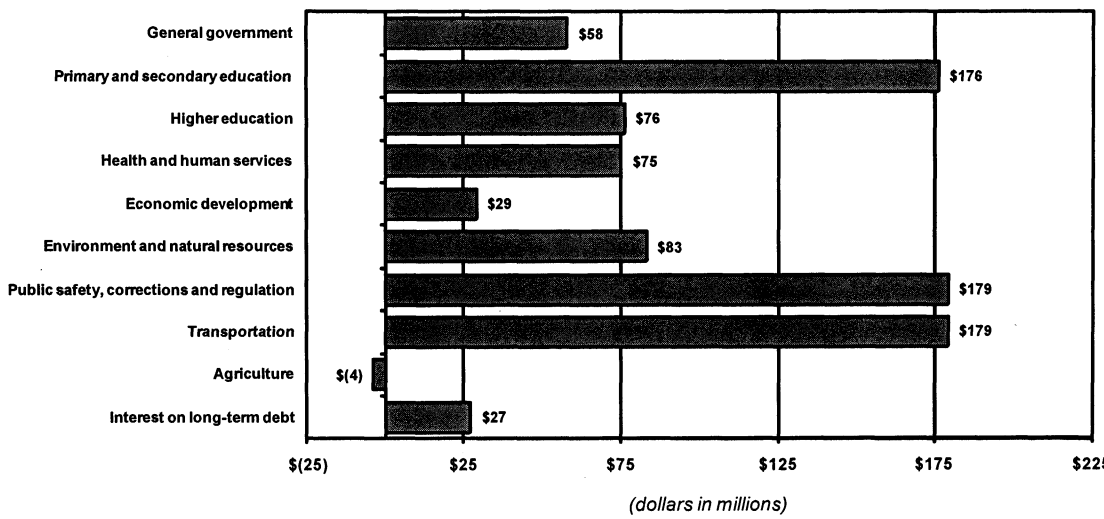
For fiscal year 2011, spending increased in almost all of the State's functional areas, with the only exception being agriculture. The growth in health and human services is related to increased spending for Medicaid (the State's largest public assistance program). The State experienced higher enrollment in the Medicaid program due to increased unemployment and additional consumption of Medicaid services. Also, as of July 1, 2009, the State assumed 100% of the county share of Medicaid, completing the phase-out of the county share. Because the State receives federal matching funds for the Medicaid Program, there was also a corresponding increase in operating grants and contributions (i.e., program revenues).

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 growth in primary and secondary education is due, in part, to the spending of ARRA funds for fiscal stabilization and the "Race to the Top" program. The growth in higher education is related to unanticipated enrollment increases, particularly in the Community College System. Community college enrollment increased by 34,000 students (15%), the result of greater demand for worker training programs. Also, the increase can be attributed to operating costs of new buildings and increased financial aid. Nonetheless, the higher education growth rate was restrained by reductions in State funding. Higher education expenses are financed primarily by State appropriations. The North Carolina State Constitution provides that "the benefits of the University North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2010 and 2011:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2010 and 2011

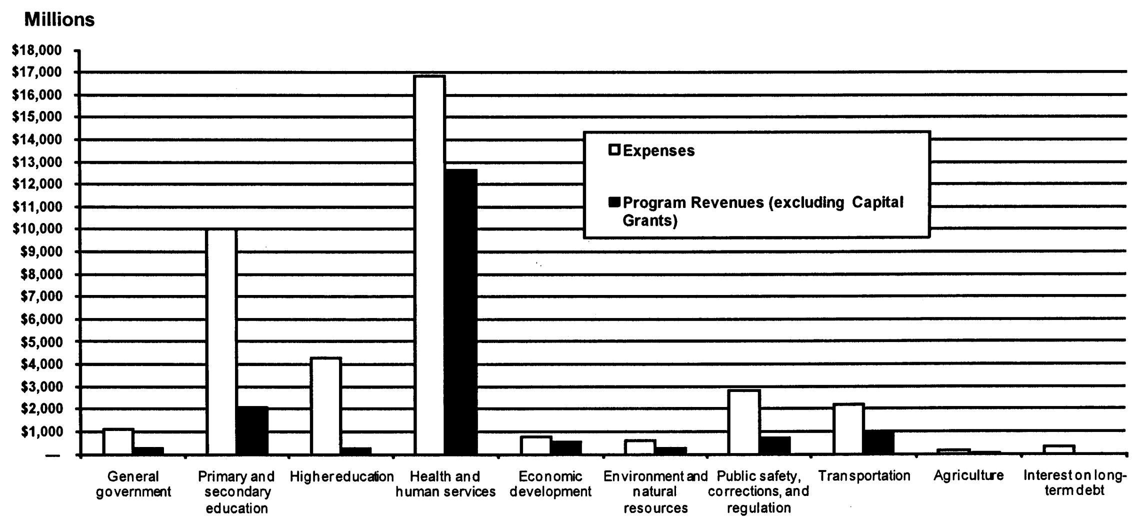


The 2007 Session of the General Assembly enacted legislation requiring the State to assume the counties' share of the nonfederal share of Medicaid costs over a three-year period, beginning October 1, 2007. To provide resources to assume these costs, the legislation phases out the local sales tax by one-half cent and makes a corresponding increase in the State sales tax rate. Below is a schedule of the Medicaid funding changes and the shift in local sales tax to the State:

Date	Medicaid Funding Change	Shift Local Sales Tax to State
10-01-07	State assumes 25% of counties' share	
7-01-08	State assumes 50% of counties' share	
10-01-08		50% of ½% local sales tax is shifted to State
7-01-09	State assumes 100% of counties' share	
10-01-09		Remaining 50% is shifted to State

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
Fiscal Year Ended June 30, 2011



Business-type Activities

Business-type activities reflect an overall decrease in net assets of $98.189 million or 26.39%, primarily because of the financial results of the Unemployment Compensation Fund. For fiscal year 2011, the Unemployment Compensation Fund had an operating loss (excess of operating expenses over operating revenues) of $3.074 billion. Also, nonoperating revenues of the Unemployment Compensation Fund included noncapital grants of $2.271 billion and federal recovery funds of $599.562 million, which were used to provide extended benefits to unemployed workers. The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise most of the total net assets of business-type activities. The N.C. State Lottery Fund has no net assets 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. As of the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $3.63 billion, an increase of 12.77% from the prior fiscal year-end (as restated). The primary contributor to the increase was the General Fund, which had a $589.052 million net change in fund balance in fiscal year 2010-11. 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 nearly doubled from $594.653 million at June 30, 2010 (as restated) to $1.184 billion at June 30, 2011. Individual income tax and sales and use tax revenues increased by 7.22% and 4.48% respectively, while corporate income tax revenues decreased by 8.5%. An individual income tax surcharge of 2% or 3% was imposed on taxpayers who meet certain income requirements for tax years beginning on or after January 1, 2009. The surtax expired for tax years beginning January 1, 2011. The State's high unemployment rate continued to have a negative impact on collections. The Department of Revenue saw a significant increase in "no-remit" individual income tax returns and "under-remit" individual income tax returns in 2011. A temporary increase in the general sales tax from 4.5% to 5.5% was imposed effective September 1, 2009. The surtax expired on July 1, 2011. The State realized a full 12 months of collections of the additional 1% sales and use tax during fiscal year 2010-11. A corporate income tax surcharge of 3% was imposed on corporations subject to income tax for tax years beginning on or after January 1, 2009. The surtax expired for tax years beginning January 1, 2011. Corporate income tax revenues were higher in the previous fiscal year, due in part to efforts by the Department of Revenue to generate additional revenue through its Resolution Initiative Project that was completed in December 2009. This project was designed to resolve all outstanding corporate and franchise tax issues for participating taxpayers.

During fiscal year 2011, the General Fund recognized $1.791 billion in federal recovery funds, provided under the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA includes two key funding streams for states, the State Fiscal Stabilization Fund (SFSF) and increased federal participation in Medicaid (FMAP). The SFSF is a one-time federal appropriation intended to help stabilize state and local government budgets in order to minimize layoffs and disruptions in education and other essential public services. The FMAP is a temporary increase to states in the federal share of Medicaid costs. Each state's increase in FMAP is based on the increase in unemployment percentages for each quarter. The federal recovery funds were used to avoid deeper reductions in spending. This funding ended in fiscal year 2010-11.

The General Assembly enacted Session Law 2011-15 (Senate Bill 109), which required the Governor to cut spending for fiscal year 2010-11 and to increase General Fund availability for fiscal year 2011-12 by $538 million. Special exceptions were made for high need programs including prisons, Medicaid, and public schools. This legislation was in response to an anticipated budget shortfall for fiscal year 2011-12 of approximately $2.6 billion. The Office of State Budget and Management (OSBM) reduced agency budgets by 1% in July 2010 and an additional 2.5% in December 2010. Additionally, in March 2011, OSBM identified $83 million in available cash balances in other funds that were subsequently transferred to the General Fund.

One of the major budget drivers for the General Fund is the Medicaid Program. On the budget basis, expenditures for Medicaid increased 6.35% in fiscal year 2010-11 to $2.47 billion. The spending increase is explained by a 3% increase in enrollment coupled with growing consumption by those individuals covered by Medicaid. In response, program changes were implemented to impact costs of services without any negative impact on clinical outcomes. The specific changes included modification of drug pricing to promote generic prescribing and ensure appropriate utilization, independent assessments of certain services, implementation of clinical policy changes to facilitate appropriate utilization and avoid abuse, implementation of additional co-pay amounts for selected services, processes to increase the detection and avoidance of fraud and abuse, and other policy changes to bring Medicaid practices in line with commercial plans. All changes were implemented to ensure continued access to quality services and compliance with federal maintenance of effort requirements.

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 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 state appropriation budget.

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

Variances – Original and Final Budget

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process and the budgeting of ARRA funds for the fiscal year. The original budget for fiscal year 2010-11 was prepared approximately 18 months prior to the final budget existing at June 30, 2011. 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 2010 Short 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 original and final budget in fiscal year 2010-11 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 2009-10 totaled $103.6 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) Inaccurate revenue and expenditure budget amounts entered by agencies during the continuation budget preparation process.
6) Budgeting of federal ARRA funds that increased the final revenue and expenditure budgets.

Variances - Final Budget and Actual Results

Actual total revenue collected (both tax and non-tax) was slightly above budgeted amounts in fiscal year 2010-11. North Carolina's revenue forecast anticipated a slow economic and revenue recovery during the fiscal year. Modest job gains and an increase in consumer spending translated into better than expected performance in individual income and sales and use tax collections, North Carolina's largest revenue sources.

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.

The variance between the final budget and actual expenditures for primary and secondary education; health and human services; and public safety, corrections and regulation is primarily a result of reductions in spending to meet the revenue requirements of the General Assembly for the beginning unreserved cash balance for fiscal year 2011-12. Also, measures taken by the Governor to prevent expenditures that exceeded the tax and non-tax revenue collections included a significant reduction in the allotment of cash to all state agencies, universities, and institutions. Therefore, expenditures that are dependent upon revenue generated by the state could not occur.

Highway Fund

The Highway Fund dates back to 1921, which is 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 $780.964 million at June 30, 2010 (as restated) to $647.962 million at June 30, 2011, a decrease of 17.03%. Total revenues increased by $605.27 million or 22.76% primarily because of increases in gasoline taxes and federal funds. Gasoline taxes increased due to an upturn in overall fuel consumption and a 1.1 cent increase in the average tax rate due to higher wholesale prices during the year. Federal reimbursement increased substantially due to additional billings for federal stimulus projects. The Federal Highway Administration awarded additional billing capacity this summer since stimulus maintenance of effort requirements were met. Additionally, in August 2009, the State issued $242.52 million in GARVEE bonds. 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, 2011, most of the GARVEE bond proceeds had been spent.

Transportation expenditures increased by $298.52 million or 10.79% due to an increase in capital outlay, primarily contract construction expenditures. The full year of ARRA expenditures and a departmental focus on completing projects funded from the latest GARVEE bond issuance contributed to this increase.

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 9.69 million in 2011, an increase of 20.42%. This growth is expected to continue for the foreseeable future. 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 2010 Report on the Condition of the State Highway System prepared by the N.C. Division of Highways, over a 10 year period (2001 to 2010), the number of paved miles increased by almost 4% and the square footage of bridge deck area grew by over 24%. During this same 10 year period, vehicle miles traveled increased by over 15%. While the recent recession slowed the growth in vehicle miles traveled, it is anticipated this rate will return to pre-recession growth. 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.

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 (see Note 10(B) to the financial statements). The amounts transferred to the General Fund for fiscal years 2011 and 2010 were $72.895 million and $108.562 million, respectively. The General Fund transfer was reduced as funds were transferred to the N.C. Turnpike Authority for debt service.

The fund balance of the Highway Trust Fund increased from $47.498 million at June 30, 2010 (as restated) to $186.866 million at June 30, 2011. Total revenues increased by $62.23 million or 6.8%, primarily because of increases in gasoline taxes and highway use taxes. Gasoline taxes increased due to an upturn in overall consumption and 1.1 cent increase in the average tax rate due to higher wholesale prices during the year. A continued increase in auto sales resulted in a 5% increase in highway use tax transactions. Total transportation expenditures increased by $108.28 million or 22.25%. State matching funds for GARVEE construction expenditures accounted for the majority of this increase.

The 2010 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 11,000 miles of unpaved secondary roads, leaving only 4,500 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 2010-2011, 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.

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 net assets of the Unemployment Compensation Fund (Trust Fund) decreased from negative \$1.701 billion at June 30, 2010 to negative \$1.969 billion at June 30, 2011. This decrease is directly related to the decline in the state and national economies. The state's unemployment rate was 9.9% in June 2011 compared to 10% in June 2010. The Trust Fund's operating margin (operating revenues less operating expenses) was negative \$3.074 billion this year compared to negative \$4.523 billion in 2010. Unemployment benefit expenses (both State and Federal) decreased 21.6% in fiscal year 2010-11 to \$4.368 billion, primarily due to claimants exhausting their maximum allowable benefits and a reduction in the number of new initial claims.

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, 2011, the repayable advances from the State's Federal Unemployment Account totaled \$2.536 billion compared to \$2.15 billion at the previous fiscal year-end. Interest began accruing January 1, 2011 at an interest rate of 4.09%. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. The required interest payment of \$78.45 million was made on September 30, 2011. A 20% surcharge on unemployment contributions, which has been in effect since January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is deposited into the State Reserve Fund and one of the allowable uses is to pay the interest on the borrowing. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger "off" level.

During fiscal year 2010-11, the federal government continued to provide various types of assistance to the unemployed. One significant difference is that the funding stream for the Emergency Unemployment Compensation program changed from "Federal recovery funds" to "Noncapital grants", which explains the substantial change from year to year. The multiple types of assistance are classified as nonoperating revenues and the dollar amounts are as follows:

1. The Emergency Unemployment Compensation program provided \$2.271 billion in benefits.
2. Two programs continued this year under the American Recovery and Reinvestment Act and provided the following benefits:
   a. The Federal Additional Compensation program provides for an additional \$25 a week to every benefit payment. This program totaled \$142 million this fiscal year.
   b. The Extended Benefit (EB) and High Unemployment Period 100% programs provided payments that totaled \$458 million this fiscal year.

For the tax year 2011, the Federal Unemployment Tax will increase by 0.3% because the State has had an outstanding loan in January for two consecutive years and will not pay back the borrowing in November. The funds generated from this increase will go directly towards paying down the debt.

N.C. State Lottery Fund

The N.C. Education Lottery (NCEL) first began selling game tickets in 2006. As required by enabling legislation, net revenues of the NCEL are transferred four times a year to the General Fund. The NCEL transferred \$436.241 million to the General Fund in 2011 to support educational programs for the State. The amount transferred in 2010 was \$432.205 million. At year end, the net assets of the NCEL are zero. The NCEL has no changes in the net assets from year to year.

For fiscal year 2010-11, net ticket sales increased 2.82% from the previous fiscal year to \$1.46 billion. Significant financial highlights include the following: awarded \$1 million or more to an NCEL player for the 94th time; increased the number of retailers to 6,610, representing a 5.5% increase over the prior year; and released 46 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$862 million.

The NCEL's 2011-12 budget provides for a projected $425 million transfer to the General Fund, representing a 1.4% 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. 50% 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 *(Note: to date, these programs have been funded by the General Fund).*
2. 40% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

N.C. Turnpike Authority

Although the N.C. Turnpike Authority (NCTA) was created in 2002, financial activity started late in fiscal year 2004. Activities for fiscal year 2011 were limited to salaries, personnel, board members per-diem, travel and other general operating expenses while project related cost was funded by state appropriated, federal, or project specific financings. Major accomplishments for the NCTA for fiscal year 2010-11 included the following:

- The Triangle Expressway System, the first toll facility in North Carolina, is under construction and will include integrated electronic tolling systems. The project is currently on schedule and estimated to be completed as planned. As of June 30, 2011, the project is 62% complete, with a 6.6% estimated savings from the initial financial plan. A portion of the Triangle Expressway is scheduled to open in December 2011.
- In October 2010, the NCTA issued $233.92 million in State Annual Appropriation Revenue Bonds to finance construction of the Monroe Connector System.

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. In fiscal year 2010-11, $49 million was transferred from the Highway Trust Fund to service debt on bonds issued to finance turnpike projects.

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by $95.026 million or 8.83% from the prior fiscal year-end. Operating income was $13.301 million (operating revenues less operating expenses). Net nonoperating revenues included $66.243 million in federal recovery funds, which were used to provide grants and loans for water infrastructure projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the State's investment in capital assets was $40.208 billion, an increase of 5.76% 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	
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
Land and permanent easements	$ 14,387,050	$ 13,728,792	$ 118,255	$ 53,227	$ 14,505,305	$ 13,782,019
Buildings	2,250,828	2,117,904	29,575	30,787	2,280,403	2,148,691
Machinery and equipment	575,296	605,619	6,321	6,742	581,617	612,361
Infrastructure:						
State highway system	19,532,260	18,804,143	—	—	19,532,260	18,804,143
Other infrastructure	138,697	117,470	5,409	5,911	144,106	123,381
Computer software	16,020	16,956	45	69	16,065	17,025
Art, literature, and other artifacts	86,827	85,506	—	—	86,827	85,506
Construction in progress	2,353,424	2,127,760	578,899	260,546	2,932,323	2,388,306
Computer software in development	128,905	55,788	—	—	128,905	55,788
Total	$ 39,469,307	$ 37,659,938	$ 738,504	$ 357,282	$ 40,207,811	$ 38,017,220
Total percent change between fiscal years 2011 and 2010	4.80 %		106.70 %		5.76 %	

The largest component of capital assets is the State highway system. North Carolina has a 79,330 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 2010) 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 billion for the State highway system. Additionally, the N.C. Turnpike Authority (Authority), a separate business unit of DOT, had construction outlays of $383 million for toll road projects. The Authority's largest project was for the Triangle Expressway, the State's first modern toll road now under construction.
- The Department of Correction (DOC) had construction outlays of $89.8 million for new prison facilities. The largest project was for the construction of a regional 120 bed medical center and a 216 bed mental health center at Central Prison in Raleigh. At year-end, construction in progress for this project totaled $104.8 million. The medical and mental health facilities are expected to be completed in the fall of 2011. The DOC is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform.
- The Green Square Complex is being constructed for the Department of Environment and Natural Resources (DENR), which will include office space for DENR employees, the Nature Research Center, and an underground parking deck. This project utilizes principles of green building and sustainable design. At year-end, construction in progress for this project totaled $56.5 million. This complex is scheduled to be completed in 2012.

As further detailed in Note 22(F) to the financial statements, the State has commitments of $2.17 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 $611.58 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 $8.461 billion, an increase of 4.43% from the previous fiscal year-end (see table below).

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
General obligation bonds	$ 4,846,205	$ 5,270,660	$ —	$ —	$ 4,846,205	$ 5,270,660
Special Indebtedness:						
Lease-purchase revenue bonds	205,045	215,045	—	—	205,045	215,045
Certificates of participation	824,860	872,600	—	—	824,860	872,600
Limited obligation bonds	1,060,745	580,705	—	—	1,060,745	580,705
GARVEE bonds	373,080	434,825	—	—	373,080	434,825
Revenue bonds	—	—	856,678	622,758	856,678	622,758
Notes payable	25,038	30,538	269,030	74,565	294,068	105,103
Total	$ 7,334,973	$ 7,404,373	$ 1,125,708	$ 697,323	$ 8,460,681	$ 8,101,696
Total percent change between fiscal years 2011 and 2010	(0.94)%		61.43 %		4.43 %	

During the 2010-11 fiscal year, the State issued $500 million in limited obligation bonds for its governmental activities. The proceeds of the 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, a business-type activity, issued $233.92 million in revenue bonds and had additional borrowings of $195.8 million from a federal transportation loan. The revenue bond proceeds will be used to finance the construction of the Monroe Connector System, a 20 mile toll road in Mecklenburg and Union counties. The federal loan proceeds will be used to finance construction of the Triangle Expressway, a 19 mile toll road in Durham and Wake counties.

The State refinanced $818.92 million of its existing debt in fiscal year 2011 to improve cash flow and to take advantage of lower interest rates. By refinancing the debt, the State will reduce its future debt service payments by approximately $30.3 million over the next 12 years.

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) prohibits 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 $8.461 billion in 2011, in part due to large issuances for higher education capital projects. Prior to 2004, 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 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.

Debt Affordability Advisory Committee

During the 2003-04 Session, the General Assembly created a Debt Affordability Advisory Committee (Committee) to annually advise the Governor and the General Assembly on the estimated debt capacity of the State for the upcoming ten fiscal years. 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.

In February 2011, the State Treasurer completed the most recent Debt Affordability Study for North Carolina (Study). The Study provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. A secondary purpose of the Study is to provide a methodology for measuring, monitoring and managing the State's debt levels, thereby protecting, and perhaps enhancing North Carolina's bond ratings.

The Committee adopted the following target and ceiling guidelines as 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:

- 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%;
- 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
- 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 definition of net tax-supported debt includes all outstanding and authorized but unissued general obligation bonds, special indebtedness, capital lease obligations, and any other such obligations that are payable from General Fund tax revenues. Net tax-supported debt excludes obligations of component units, Highway Fund debt paid from Highway Fund revenues, non tax-supported special indebtedness paid from non-General Fund supported trust funds, other self-supporting or non-tax supported debt such as revenue bonds, short term tax anticipation notes, and other postemployment benefits.

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 State's current revenue picture is less than robust as it faces the expiration of temporary taxes and surcharges and the absence of the federal support that has been available in the recent past. Due primarily to the reduced revenue assumptions, the State has exhausted its General Fund debt capacity until fiscal year 2013. North Carolina's debt is considered manageable at current levels when compared to its peer group composed of other states rated triple-A by all three rating agencies. Credit rating agencies consider a debt affordability study as a positive factor when evaluating issuers and assigning credit ratings.

Credit Ratings

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. Credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay. The State's general obligation bond credit ratings are as follows:

State of North Carolina
General Obligation Bond Credit Ratings

Rating Agency	Rating	Outlook
Fitch Ratings	AAA	Stable
Moody's Investors Service	Aaa	Stable
Standard & Poor's Rating Services	AAA	Stable

These ratings are the highest attainable from all three rating agencies. In February 2011, 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 proactive responses and history of taking early action to mitigate the impact of revenue declines. North Carolina remains one of only eight 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.

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

NEXT YEAR'S BUDGET AND RATES

The General Assembly enacted a $19.7 billion budget for fiscal year 2011-12, closing the $2.6 billion budget gap through spending reductions (64%) and adjustments to availability (36%). Spending reductions totaled $2.1 billion. The largest reductions occurred in the functional areas of education ($1.2 billion) and health and human services ($531 million). Adjustments increased availability by $354 million. Major adjustments included transfers from the Highway Fund for State Highway Patrol ($197 million), increases in judicial fees ($62 million), and suspension of the corporate earmark for public school construction ($72 million). In addition, three cabinet departments (Crime Control and Public Safety, Correction, and Juvenile Justice and Delinquency Prevention) were combined into a new Department of Public Safety to streamline government and save costs related to administration and staff.

The largest tax change for fiscal year 2011-12 was the expiration of the temporary tax package passed as part of the 2009-2011 biennium budget. This package included a 1 cent increase in the state sales tax (expired on July 1, 2011), a 2 to 3 percent income tax surcharge on highest-income households (expired for taxable years on or after January 1, 2011), and a 3 percent surcharge on corporate income taxes (expired for taxable years or after January 1, 2011). Allowing the package to expire decreased annual State revenue by an estimated $1.3 billion.

Another notable tax change for fiscal year 2011-12 was the business-income tax exemption. This revenue change exempts the first $50,000 in non-passive business income paid through the personal income tax. The exemption is effective for tax years 2012 and 2013 and saves Limited Liability Companies, S-corporations, and sole proprietorships an estimated $132 million in 2011-2012.

The General Assembly also enacted Session Law 11-390 (House Bill 619) establishing new procedures for the Secretary of Revenue to follow when the Secretary has reason to believe that a corporation conducts its business in such a manner as to fail to accurately report its State net income. The provisions are effective for taxable years beginning on or after January 1, 2012.

CONDITIONS EXPECTED TO IMPACT FUTURE OPERATIONS

State Health Plan

During the 2011 legislative session, the General Assembly enacted Senate Bill 323, *State Health Plan/Appropriations & Transfer II* (S.L. 2011-85) and House Bill 578, *State Health Plan/Additional Changes* (S.L. 2011-96), which made changes to the State Health Plan's benefits, programs, and oversight. These enacted bills require increased member cost sharing (i.e., copayments, deductibles, and coinsurance maximums) within the parameters allowed under federal health care reform to maintain the Plan's grandfather status; introduced, for the first time, a monthly premium for employee-only and retiree-only coverage; increased premiums for dependent coverage by 5.3%; changed the Plan's governance structure effective January 1, 2012; and made conforming changes to the Plan's statutes related to preexisting conditions and dependent age as required by federal health care reform. The legislation also repealed the Comprehensive Wellness Initiative (CWI), which was established in 2009, effective September 1, 2011. This initiative limited tobacco users to enrollment in the 70/30 Basic Preferred Provider Organization Plan option, unless the member participated in a tobacco cessation program.

The General Assembly amended Article 3A of G.S. 135 to transfer the State Health Plan to the Department of State Treasurer effective January 1, 2012. Under the new law, the State Treasurer will serve as the head of the State Health Plan and is responsible for administering and operating the State Health Plan in accordance with the statute.

State Contributions to the Pension Fund

The economic climate and volatility of the stock market in recent years have negatively impacted the State's finances, including assets of North Carolina pension funds. The economic crisis has long term effects that will require increased contributions from the State over the next several years in order to maintain the strength of the Teachers' and State Employees' Retirement System (TSERS). Funding the Retirement Systems is a shared responsibility among employees, employers, and investment earnings. Effective July 1, 2011, the State established an employer contribution rate of 7.44% of compensation for TSERS. The annual required contribution was calculated at 7.94%, based on a nine-year amortization, but the amortization period was extended from nine to 12 years, thus allowing a 7.44% employer contribution rate to meet the full annual required contribution.

New Supplemental Retirement Plan for Teachers

Effective July 1, 2011, the Department of State Treasurer is authorized to create a centralized 403(b) retirement savings plan as an option for employees of local boards of education. The statewide plan will be known as the "North Carolina Public School Teachers' and Professional Educators' Investment Plan."

Escheats Fund

North Carolina's escheat policies date back to 1789 when the North Carolina State Constitution called for transferring unclaimed property to the University of North Carolina System. Interest earned on the Escheats Fund's investments underwrites college scholarships. Since 2003, the State has used the Escheat Fund's principal to fund student financial aid. As required by Session Laws 2011-145 and 2011-340, $161.4 million was appropriated from the Escheats Fund in total to the Board of Governors of the University of North Carolina and to the State Board of Community Colleges for fiscal year 2011-12. While the student financial aid programs are important, continued withdrawals will have a negative impact on the fund in the near term.

Justice Reinvestment Act

During the 2011 legislative session, the General Assembly enacted House Bill 642, *Justice Reinvestment Act* (Session Law 2011-192), which made significant changes in the sentencing laws and correctional policies of the State. The intent of this legislation is 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, and investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Carolina Office of the State Controller, Accounting and Financial Reporting Section, 1410 Mail Service Center, Raleigh, N.C. 27699-1410. In addition, this financial report is available on the Office of the State Controller's internet home page at http://www.osc.nc.gov/financial/index.html .

Basic Financial Statements

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2011 — *Exhibit A-1*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Assets				
Cash and cash equivalents (Note 3)	$ 3,805,982	$ 525,281	$ 4,331,263	$ 2,552,779
Investments (Note 3)	275,356	152,500	427,856	2,046,520
Securities lending collateral (Note 3)	472,998	91,577	564,575	—
Receivables, net (Note 4)	3,025,903	616,658	3,642,561	1,177,605
Due from component units (Note 19)	3,598	—	3,598	12,562
Due from primary government (Note 19)	—	—	—	68,693
Internal balances	24,838	(24,838)	—	—
Inventories	208,071	531	208,602	100,633
Prepaid items	1,277	3,568	4,845	55,827
Advances to component units	21,742	—	21,742	—
Notes receivable, net (Note 4)	114,240	826,869	941,109	4,991,286
Investment in joint venture	—	—	—	21,609
Deferred charges	—	27,447	27,447	46,963
Securities held in trust	50,157	—	50,157	—
Pension assets (Note 12)	2,997	—	2,997	—
Restricted/designated cash and cash equivalents (Note 3)	357,269	98	357,367	1,992,848
Restricted investments (Note 3)	547,341	681,117	1,228,458	5,098,198
Restricted due from primary government (Note 19)	—	—	—	29,019
Restricted due from component units (Note 19)	—	—	—	1,351
Deferred outflow of resources	—	—	—	46,518
Capital assets-nondepreciable (Note 5)	16,956,206	697,154	17,653,360	1,982,648
Capital assets-depreciable, net (Note 5)	22,513,101	41,350	22,554,451	11,568,139
Total Assets	48,381,076	3,639,312	52,020,388	31,793,198
Liabilities				
Accounts payable and accrued liabilities	1,536,303	121,654	1,657,957	919,464
Medical claims payable	984,844	—	984,844	224,217
Unemployment benefits payable	—	74,636	74,636	—
Tax refunds payable	1,389,964	—	1,389,964	—
Obligations under securities lending	491,775	96,556	588,331	—
Interest payable	86,412	76,691	163,103	69,571
Short-term debt (Note 6)	—	—	—	84,190
Due to component units (Note 19)	91,653	6,059	97,712	13,913
Due to primary government (Note 19)	—	—	—	3,598
Unearned revenue	408,489	28,894	437,383	255,997
Advance from primary government	—	—	—	21,742
Deposits payable	3,217	94	3,311	11,471
Funds held for others	82,668	—	82,668	1,690,667
Hedging derivatives liability (Note 7)	—	—	—	46,518
Long-term liabilities (Note 8):				
Due within one year	584,911	803,860	1,388,771	769,708
Due in more than one year	8,355,529	2,901,125	11,256,654	8,560,402
Total Liabilities	14,015,765	4,109,569	18,125,334	12,671,458
Net Assets				
Invested in capital assets, net of related debt	37,419,430	294,158	37,713,588	9,599,181
Restricted for:				
Nonexpendable:				
Environment and natural resources	84,145	—	84,145	—
Higher education	574	—	574	1,849,291
Expendable:				
Primary and secondary education	15,009	—	15,009	—
Higher education	414,779	—	414,779	2,845,303
Health and human services	23,137	—	23,137	1,067
Economic development	41,521	—	41,521	757,236
Environment and natural resources	39,236	—	39,236	—
Public safety, corrections, and regulation	31,287	—	31,287	—
Transportation	2,833	—	2,833	—
Other purposes	76,579	3,131	79,710	—
Unrestricted	(3,783,219)	(767,546)	(4,550,765)	4,069,662
Total Net Assets	$ 34,365,311	$ (470,257)	$ 33,895,054	$ 19,121,740

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

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STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2011
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government	$ 1,123,257	$ 195,286	$ 47,587	$ 10,562	$ (869,822)
Primary and secondary education	10,006,402	17,431	2,031,220	—	(7,957,751)
Higher education	4,308,475	111,862	164,990	—	(4,031,623)
Health and human services	16,837,927	295,465	12,348,448	—	(4,194,014)
Economic development	744,796	32,205	479,772	10	(232,809)
Environment and natural resources	608,903	155,298	92,233	32,998	(328,374)
Public safety, corrections, and regulation	2,796,375	542,304	177,664	11,678	(2,064,729)
Transportation	2,177,142	709,064	265,758	1,143,301	(59,019)
Agriculture	114,474	19,203	24,586	—	(70,685)
Interest on long-term debt	307,917	—	—	—	(307,917)
Total Governmental Activities	39,025,668	2,078,118	15,632,258	1,198,549	(20,116,743)
Business-type Activities:					
Unemployment Compensation	4,420,762	1,294,104	2,870,847	—	(255,811)
N.C. State Lottery	1,028,536	1,464,639	1,192	—	437,295
EPA Revolving Loan	42,897	20,388	104,456	—	81,947
N.C. Turnpike Authority	4,940	—	15,212	11,630	21,902
Regulatory programs	78,653	80,008	1,165	—	2,520
Insurance programs	36,885	16,046	4,514	—	(16,325)
North Carolina State Fair	13,595	14,915	343	—	1,663
Other business-type activities	9,148	8,745	385	57	39
Total Business-type Activities	5,635,416	2,898,845	2,998,114	11,687	273,230
Total Primary Government	$ 44,661,084	$ 4,976,963	$ 18,630,372	$ 1,210,236	$ (19,843,513)
Component Units:					
The Golden LEAF, Inc.	$ 45,527	$ 9	$ 121,885	$ —	$ 76,367
University of North Carolina System	9,150,137	5,533,287	1,749,622	370,858	(1,496,370)
Community Colleges	2,194,155	305,403	912,318	265,557	(710,877)
N.C. Housing Finance Agency	429,975	388,623	46,392	—	5,040
State Education Assistance Authority	328,220	108,193	217,247	—	(2,780)
State Health Plan	2,613,075	2,680,783	106,323	—	174,031
Other component units	335,780	99,031	157,884	46,436	(32,429)
Total Component Units	$ 15,096,869	$ 9,115,329	$ 3,311,671	$ 682,851	$ (1,987,018)

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2011 *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (expense) revenue	$ (20,116,743)	$ 273,230	$ (19,843,513)	$ (1,987,018)
General Revenues:				
Taxes:				
Individual income tax	10,020,535	—	10,020,535	—
Corporate income tax	1,132,931	—	1,132,931	—
Sales and use tax	6,172,377	—	6,172,377	—
Gasoline tax	1,675,476	—	1,675,476	—
Franchise tax	794,091	—	794,091	—
Highway use tax	469,811	—	469,811	—
Insurance tax	501,032	—	501,032	—
Beverage tax	311,809	—	311,809	—
Inheritance tax	24,184	—	24,184	—
Tobacco products tax	291,699	—	291,699	—
Other taxes	301,217	—	301,217	—
Tobacco settlement	131,318	—	131,318	—
Unrestricted investment earnings	32,980	—	32,980	—
State aid	—	—	—	3,603,872
Miscellaneous	45,014	3	45,017	5,758
Contributions to permanent funds	3,188	—	3,188	—
Contributions to endowments	—	—	—	118,302
Transfers	371,422	(371,422)	—	—
Total general revenues, contributions, and transfers	22,279,084	(371,419)	21,907,665	3,727,932
Change in net assets	2,162,341	(98,189)	2,064,152	1,740,914
Net assets — July 1, as restated (Note 24)	32,202,970	(372,068)	31,830,902	17,380,826
Net assets — June 30	$ 34,365,311	$ (470,257)	$ 33,895,054	$ 19,121,740

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011 *Exhibit B-1*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	$ 2,052,906	$ 771,762	$ 198,900	$ 697,807	$ 3,721,375
Investments (Note 3)	4,599	—	—	225,635	230,234
Securities lending collateral (Note 3)	312,469	70,594	17,739	67,334	468,136
Receivables, net: (Note 4)					
Taxes receivable	1,616,815	116,446	39,009	2,237	1,774,507
Accounts receivable	259,895	6,756	82	18,316	285,049
Intergovernmental receivable	853,202	68,545	—	16,594	938,341
Interest receivable	8,592	943	158	654	10,347
Other receivables	—	2,905	—	—	2,905
Due from other funds (Note 10)	7,478	—	228	9,256	16,962
Due from component units (Note 19)	—	—	—	2,974	2,974
Inventories	93,259	87,000	—	27,465	207,724
Advances to other funds (Note 10)	—	—	21,011	—	21,011
Advances to component units	—	—	—	21,742	21,742
Notes receivable, net (Note 4)	70,857	1,039	73	42,271	114,240
Securities held in trust	430	4,011	—	45,716	50,157
Restricted/designated cash and cash equivalents (Note 3)	160,232	—	—	197,037	357,269
Restricted investments (Note 3)	—	1,913	—	545,428	547,341
Total Assets	$ 5,440,734	$ 1,131,914	$ 277,200	$ 1,920,466	$ 8,770,314
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 131,344	$ 230,593	$ 22,089	$ 70,468	$ 454,494
Accrued payroll	3,952	38,343	—	364	42,659
Intergovernmental payable	695,167	98,694	47,508	8,581	849,950
Claims payable	—	—	—	37,492	37,492
Medical claims payable	984,844	—	—	—	984,844
Tax refunds payable	1,382,700	5,448	1,816	—	1,389,964
Obligations under securities lending	325,043	73,589	18,921	69,182	486,735
Due to fiduciary funds (Note 10)	67,461	—	—	—	67,461
Due to other funds (Note 10)	21,686	4,035	—	8,604	34,325
Due to component units (Note 19)	52,801	—	—	38,852	91,653
Deferred revenue	570,393	14,836	—	29,270	614,499
Deposits payable	3,210	—	—	7	3,217
Funds held for others	18,428	18,414	—	45,826	82,668
Total Liabilities	4,257,029	483,952	90,334	308,646	5,139,961
Fund Balances (Note 11):					
Nonspendable	93,259	87,000	—	112,053	292,312
Restricted	72,032	3,167	—	902,210	977,409
Committed	1,115,156	557,795	186,866	599,184	2,459,001
Unassigned	(96,742)	—	—	(1,627)	(98,369)
Total Fund Balance	1,183,705	647,962	186,866	1,611,820	3,630,353
Total Liabilities and Fund Balances	$ 5,440,734	$ 1,131,914	$ 277,200	$ 1,920,466	$ 8,770,314

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 ASSETS

June 30, 2011 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 3,630,353
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
- **Capital assets** used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds)	$ 39,929,539	
Less: Accumulated depreciation (excluding internal service funds)	(564,626)	
Net capital assets		39,364,913
- **Some assets**, 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.		213,898
Investment derivatives are not financial resources and, therefore, are not reported in the funds (see Note 7).		19,792
- **Pension assets**, resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 12).		2,997
- **Long-term debt instruments**, such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 8). Also, unamortized debt premiums, discounts, and losses on refundings are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable	(4,846,205)	
Lease-purchase revenue bonds payable	(205,045)	
Certificates of participation payable	(824,860)	
Limited obligation bonds payable	(1,060,745)	
GARVEE bonds payable	(373,080)	
Unamortized debt premiums (to be amortized as interest expense)	(441,218)	
Less: Unamortized loss on refunding (to be amortized as interest expense)	125,615	
Notes payable	(25,038)	
Capital leases payable (excluding internal service funds)	(21,309)	
Net long-term debt		(7,671,885)
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 8 as applicable) consist of:		
Accrued interest payable	(86,314)	
Compensated absences (excluding internal service funds)	(406,407)	
Obligations for workers' compensation	(112,687)	
Deferred death benefit payable	(370)	
Pollution remediation payable	(6,864)	
Court judgment payable	(731,703)	
Negative investment derivatives	(71,993)	
Net pension obligation	(2,952)	
Total other liabilities		(1,419,290)
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (see Exhibit B-3).		224,533
Total net assets - governmental activities (see Exhibit A-1)		$ 34,365,311

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, 2011 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax	$ 10,018,039	$ —	$ —	$ 2,496	$ 10,020,535
Corporate income tax	1,139,584	—	—	—	1,139,584
Sales and use tax	6,133,915	—	—	29,321	6,163,236
Gasoline tax	—	1,234,577	412,016	28,004	1,674,597
Franchise tax	793,094	—	—	—	793,094
Highway use tax	—	—	469,811	—	469,811
Insurance tax	485,989	—	—	15,043	501,032
Beverage tax	311,814	—	—	—	311,814
Inheritance tax	23,880	—	—	—	23,880
Tobacco products tax	290,743	—	—	—	290,743
Other taxes	166,600	—	—	134,453	301,053
Federal funds	12,828,192	1,048,996	—	338,313	14,215,501
Local funds	149,545	17,285	583	19,531	186,944
Investment earnings	47,747	9,891	1,034	41,434	100,106
Interest earnings on loans	3,133	—	—	971	4,104
Sales and services	130,278	1,089	—	145,694	277,061
Rental and lease of property	11,611	8,668	2,313	2,573	25,165
Fees, licenses, and fines	607,472	601,879	89,489	199,391	1,498,231
Tobacco settlement	138,256	—	—	—	138,256
Contributions, gifts, and grants	22,591	6,946	858	78,775	109,170
Funds escheated	—	—	—	111,481	111,481
Federal recovery funds	1,791,264	323,363	—	150,766	2,265,393
Miscellaneous	122,331	11,751	1,003	23,861	158,946
Total revenues	35,216,078	3,264,445	977,107	1,322,107	40,779,737
Expenditures:					
Current:					
General government	1,000,938	—	—	41,163	1,042,101
Primary and secondary education	10,000,438	—	—	—	10,000,438
Higher education	3,816,777	—	—	491,906	4,308,683
Health and human services	16,810,264	—	—	94,108	16,904,372
Economic development	334,391	—	—	407,977	742,368
Environment and natural resources	341,841	—	—	261,271	603,112
Public safety, corrections, and regulation	2,495,006	—	—	258,388	2,753,394
Transportation	—	3,065,115	594,946	8	3,660,069
Agriculture	101,541	—	—	11,612	113,153
Capital outlay	—	—	—	364,121	364,121
Debt service:					
Principal retirement	402,327	61,745	58,873	3,787	526,732
Interest and fees	346,842	19,355	26,336	899	393,432
Debt issuance costs	891	27	27	3,233	4,178
Total expenditures	35,651,256	3,146,242	680,182	1,938,473	41,416,153
Excess revenues over (under) expenditures	(435,178)	118,203	296,925	(616,366)	(636,416)
Other Financing Sources (Uses):					
Special indebtedness issued	—	—	—	500,000	500,000
Refunding bonds issued	774,745	—	—	—	774,745
Premium on debt issued	158,713	—	—	32,322	191,035
Payment to refunded bond escrow agent	(370,982)	—	—	—	(370,982)
Payment of debt service principal	(499,870)	—	—	—	(499,870)
Sale of capital assets	5,984	5,109	789	236	12,118
Insurance recoveries	822	6,489	—	8	7,319
Transfers in (Note 10)	1,015,902	37,263	—	78,403	1,131,568
Transfers out (Note 10)	(61,084)	(300,066)	(158,346)	(178,823)	(698,319)
Total other financing sources (uses)	1,024,230	(251,205)	(157,557)	432,146	1,047,614
Net change in fund balances	589,052	(133,002)	139,368	(184,220)	411,198
Fund balances — July 1, as restated (Note 24)	594,653	780,964	47,498	1,796,040	3,219,155
Fund balances — June 30	$ 1,183,705	$ 647,962	$ 186,866	$ 1,611,820	$ 3,630,353

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, 2011 *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ 411,198
Amounts reported for governmental activities in the Statement of Activities are different because:		
- **Capital outlays** are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	$ 2,577,893	
Less: Depreciation expense (excluding internal service funds)	(689,370)	
Net capital outlay adjustment		1,888,523
- **Proceeds from the sale of capital assets** increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.		(66,679)
- **Donations of capital assets** do not appear in the governmental funds because they are not financial resources, but increase net assets in the Statement of Activities.		358
- **Derivative termination payments** to counterparties consume financial resources of governmental funds but have no effect on net assets.		49,903
- **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. 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	(500,000)	
Refunding bonds issued	(774,745)	
Premiums on debt issued	(191,035)	
Principal repayments:		
Bonds, notes, and similar debt	525,225	
Capital leases (excluding internal service funds)	1,507	
Payments to escrow agent for refundings	370,982	
Payment of debt service principal	499,870	
Net debt adjustments		(68,196)
- **Some revenues** 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.		(17,920)
Changes in fair value of investment derivatives are not current financial resources in governmental funds but are recognized in the Statement of Activities		164
- **Some expenses** reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest	(639)	
Compensated absences (excluding internal service funds)	7,975	
Workers' compensation	(30,537)	
Deferred death benefit	130	
Net pension obligation	(4,047)	
Pollution remediation	(315)	
Amortization of deferred amounts	36,251	
Net expense accruals		8,818
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).		(43,828)
Change in net assets - governmental activities (see Exhibit A-2)		$ 2,162,341

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011
(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Assets				
Current Assets:				
Cash and cash equivalents (Note 3)	$ 127,227	$ 341,029	$ 15,777	$ —
Investments (Note 3)	—	—	3,000	—
Securities lending collateral (Note 3)	10,280	28,934	1,593	41,712
Receivables: (Note 4)				
Accounts receivable, net	46,945	—	9,897	2
Intergovernmental receivable	47,799	83	—	6,569
Interest receivable	104	5,567	30	—
Premiums receivable	—	—	—	—
Contributions receivable, net	443,754	—	—	—
Notes receivable, net (Note 4)	—	57,487	—	—
Due from other funds (Note 10)	7,048	—	—	—
Due from component units (Note 19)	—	—	—	—
Inventories	—	—	16	—
Prepaid items	—	—	32	—
Restricted/designated cash and cash equivalents (Note 3)	—	—	—	—
Restricted investments (Note 3)	—	—	—	—
Total current assets	683,157	433,100	30,345	48,283
Noncurrent Assets:				
Investments (Note 3)	—	—	35,620	—
Receivables: (Note 4)				
Contributions receivable, net	53,329	—	—	—
Notes receivable, net (Note 4)	—	769,300	—	—
Deferred charges	—	—	148	27,299
Restricted investments (Note 3)	—	—	—	679,207
Capital assets-nondepreciable (Note 5)	—	—	—	689,362
Capital assets-depreciable, net (Note 5)	—	65	819	20
Total noncurrent assets	53,329	769,365	36,587	1,395,888
Total Assets	736,486	1,202,465	66,932	1,444,171
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	11,048	64	17,559	29,546
Accrued payroll	—	—	666	—
Intergovernmental payable	12,380	—	—	—
Claims payable	—	—	—	—
Unemployment benefits payable	74,636	—	—	—
Obligations under securities lending	10,907	30,298	1,427	44,491
Interest payable	52,718	—	—	23,973
Due to other funds (Note 10)	3,080	21	7,470	228
Due to component units (Note 10)	—	—	—	—
Unearned revenue	4,241	—	27	—
Deposits payable	—	—	—	—
Annuity and life income payable (Note 8)	—	—	3,000	—
Notes payable (Note 8)	—	—	—	—
Capital leases payable (Note 8)	—	—	—	—
Federal unemployment account advances (Note 8)	800,000	—	—	—
Compensated absences (Note 8)	—	24	68	9
Total current liabilities	969,010	30,407	30,217	98,247

Exhibit B-3

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 41,248	$ 525,281	$ 84,607
110,945	113,945	25,330
9,058	91,577	4,862
1,426	58,270	14,666
—	54,451	8
78	5,779	26
1,075	1,075	54
—	443,754	—
7	57,494	—
—	7,048	21,955
—	—	624
515	531	347
3,536	3,568	1,277
98	98	—
1,910	1,910	—
169,896	1,364,781	153,756
2,935	38,555	—
—	53,329	—
75	769,375	—
—	27,447	—
—	679,207	—
7,792	697,154	3,396
40,446	41,350	100,998
51,248	2,306,417	104,394
221,144	3,671,198	258,150
1,791	60,008	9,023
120	786	1,150
—	12,380	—
33,152	33,152	1,484
—	74,636	—
9,433	96,556	5,040
—	76,691	98
76	10,875	765
6,059	6,059	—
24,626	28,894	7,888
94	94	—
—	3,000	—
342	342	—
—	—	667
—	800,000	—
417	518	467
76,110	1,203,991	26,582

Continued

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011

(Dollars in Thousands)

			Business-type Activities — Enterprise Funds	
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Noncurrent Liabilities:				
Accounts payable	—	—	—	15,328
Advances from other funds (Note 10)	—	—	—	21,011
Annuity and life income payable (Note 8)	—	—	35,620	—
Notes payable (Note 8)	—	—	—	264,596
Capital leases payable (Note 8)	—	—	—	—
Bonds payable, net (Note 8)	—	—	—	854,550
Federal unemployment account advances (Note 8)	1,736,169	—	—	—
Compensated absences (Note 8)	—	458	1,095	99
Total noncurrent liabilities	1,736,169	458	36,715	1,155,584
Total Liabilities	2,705,179	30,865	66,932	1,253,831
Net Assets				
Invested in capital assets, net of related debt	—	65	819	249,444
Restricted for:				
Capital outlay	—	—	—	—
Other purposes	—	—	—	—
Unrestricted	(1,968,693)	1,171,535	(819)	(59,104)
Total Net Assets	$ (1,968,693)	$ 1,171,600	$ —	$ 190,340

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

Exhibit B-3

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
—	15,328	597
—	21,011	—
—	35,620	—
4,092	268,688	—
—	—	693
—	854,550	—
—	1,736,169	—
4,446	6,098	5,745
8,538	2,937,464	7,035
84,648	4,141,455	33,617
43,830	294,158	103,034
1,933	1,933	—
1,198	1,198	—
89,535	(767,546)	121,499
$ 136,496	$ (470,257)	$ 224,533

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

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Operating Revenues:				
Employer unemployment contributions	$ 1,219,310	$ —	$ —	$ —
Federal funds	74,794	—	—	—
Sales and services	—	2,063	1,459,578	—
Interest earnings on loans	—	18,201	—	—
Rental and lease earnings	—	—	—	—
Fees, licenses, and fines	—	—	4,962	—
Insurance premiums	—	—	—	—
Miscellaneous	—	124	99	—
Total operating revenues	1,294,104	20,388	1,464,639	—
Operating Expenses:				
Personal services	—	4,949	15,824	1,155
Supplies and materials	—	29	127	17
Services	—	1,460	145,745	736
Cost of goods sold	—	—	—	—
Depreciation/amortization	—	19	624	15
Lottery prizes	—	—	862,996	—
Claims	—	—	—	—
Unemployment benefits	4,368,015	—	—	—
Insurance and bonding	—	—	9	—
Other	—	630	3,184	1,873
Total operating expenses	4,368,015	7,087	1,028,509	3,796
Operating income (loss)	(3,073,911)	13,301	436,130	(3,796)
Nonoperating Revenues (Expenses):				
Noncapital grants	2,270,783	34,717	—	—
Noncapital gifts, net	—	—	—	—
Investment earnings	502	3,496	1,176	4,369
Interest and fees	(52,718)	—	—	(1,008)
Insurance recoveries	—	—	—	—
Grants, aid and subsidies	—	(35,667)	—	—
Gain (loss) on sale of equipment	—	(48)	(6)	—
Federal interest subsidy on debt	—	—	—	10,843
Federal recovery funds	599,562	66,243	—	—
Miscellaneous	(29)	(95)	(5)	(136)
Total nonoperating revenues (expenses)	2,818,100	68,646	1,165	14,068
Income (loss) before contributions and transfers	(255,811)	81,947	437,295	10,272
Capital contributions	—	—	—	11,630
Transfers in (Note 10)	—	13,532	—	69,153
Transfers out (Note 10)	(11,816)	(453)	(437,295)	—
Change in net assets	(267,627)	95,026	—	91,055
Net assets — July 1, as restated (Note 24)	(1,701,066)	1,076,574	—	99,285
Net assets — June 30	$ (1,968,693)	$ 1,171,600	$ —	$ 190,340

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

Exhibit B-4

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ —	$ 1,219,310	$ —
—	74,794	72
1,216	1,462,857	316,450
—	18,201	—
6,597	6,597	21
94,206	99,168	151
16,046	16,046	17,713
1,649	1,872	323
119,714	2,898,845	334,730
59,161	81,089	75,829
2,325	2,498	18,343
23,342	171,283	125,231
400	400	592
2,726	3,384	25,819
—	862,996	—
31,120	31,120	74
—	4,368,015	—
4,809	4,818	16,257
8,162	13,849	57,325
132,045	5,539,452	319,470
(12,331)	(2,640,607)	15,260
421	2,305,921	340
395	395	3
5,424	14,967	1,857
(158)	(53,884)	—
—	—	121
(6,050)	(41,717)	—
2	(52)	214
—	10,843	—
139	665,944	—
1	(264)	152
174	2,902,153	2,687
(12,157)	261,546	17,947
57	11,687	52
1,546	84,231	14,605
(6,089)	(455,653)	(76,432)
(16,643)	(98,189)	(43,828)
153,139	(372,068)	268,361
$ 136,496	$ (470,257)	$ 224,533

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Cash Flows From Operating Activities:				
Receipts from customers	$ 1,140,370	$ 2,063	$ 1,359,272	$ —
Receipts from federal agencies	101,385	—	—	—
Receipts from other funds	—	—	—	—
Payments to suppliers	—	(1,532)	(44,973)	(1,262)
Payments to employees	—	(4,940)	(15,468)	(1,188)
Payments for prizes, benefits, and claims	(4,555,831)	—	(873,500)	—
Payments to other funds	—	—	—	—
Other receipts	—	124	17	—
Other payments	—	(554)	(1,147)	(1,765)
Net cash flows provided (used) by operating activities	(3,314,076)	(4,839)	424,201	(4,215)
Cash Provided From (Used For) Noncapital Financing Activities:				
Grant receipts	2,350,917	34,668	—	—
Federal recovery funds	679,556	66,253	—	—
Subsidy to other governments	—	(35,667)	—	—
Principal payments on borrowing	—	—	—	—
Advances from federal unemployment account	1,430,322	—	—	—
Payments to federal unemployment account	(1,043,677)	—	—	—
Interest expense and issuance cost	—	—	—	—
Advances from other funds	—	—	—	2,732
Transfers from other funds	—	13,532	—	—
Transfers to other funds	(11,816)	(453)	(447,952)	—
Gifts	—	—	—	—
Total cash provided from (used for) noncapital financing activities	3,405,302	78,333	(447,952)	2,732
Cash Provided From (Used For) Capital and Related Financing Activities:				
Acquisition and construction of capital assets	—	(16)	(211)	(326,406)
Proceeds from the sale of capital assets	—	—	—	—
Proceeds from capital debt	—	—	—	429,716
Transfers from other funds	—	—	—	69,153
Capital grants	—	—	—	11,600
Capital contributions	—	—	—	—
Principal paid on capital debt	—	—	—	—
Interest paid on capital debt	—	—	—	(37,869)
Federal subsidy for interest on debt	—	—	—	8,691
Insurance recoveries	—	—	—	—
Debt issuance costs paid	—	—	—	(1,689)
Total cash provided from (used for) capital and related financing activities	—	(16)	(211)	153,196
Cash Provided From (Used For) Investment Activities:				
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	—	747,335
Purchase of non-State Treasurer investments	—	—	—	(908,094)
Purchase into State Treasurer investment pool	—	—	—	—
Redemptions from State Treasurer investment pool	—	—	—	—
Loan issuances	—	(101,793)	—	—
Loan repayments — interest	—	17,858	—	—
Loan repayments — principal	—	57,440	—	—
Investment earnings	879	3,013	979	8,108
Total cash provided from (used for) investment activities	879	(23,482)	979	(152,651)
Net increase (decrease) in cash and cash equivalents	92,105	49,996	(22,983)	(938)
Cash and cash equivalents at July 1, as restated	35,122	291,033	38,760	938
Cash and cash equivalents at June 30	$ 127,227	$ 341,029	$ 15,777	$ —

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

Exhibit B-5

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 121,412	$ 2,623,117	$ 44,679
—	101,385	72
—	—	291,392
(25,832)	(73,599)	(201,216)
(55,826)	(77,422)	(75,237)
(14,602)	(5,443,933)	(323)
—	—	(16,203)
1,212	1,353	490
(17,522)	(20,988)	(863)
8,842	(2,890,087)	42,791
431	2,386,016	340
139	745,948	—
—	(35,667)	—
—	—	(505)
—	1,430,322	—
—	(1,043,677)	—
—	—	(64)
—	2,732	—
1,546	15,078	14,551
(6,089)	(466,310)	(76,432)
395	395	3
(3,578)	3,034,837	(62,107)
(1,555)	(328,188)	(13,476)
3	3	811
—	429,716	—
—	69,153	—
—	11,600	—
58	58	—
(1,902)	(1,902)	(640)
(44)	(37,913)	(81)
—	8,691	—
—	—	121
—	(1,689)	—
(3,440)	149,529	(13,265)
9,827	757,162	—
(10,006)	(918,100)	—
(10,000)	(10,000)	—
4,000	4,000	—
—	(101,793)	—
—	17,858	—
—	57,440	—
823	13,802	359
(5,356)	(179,631)	359
(3,532)	114,648	(32,222)
44,878	410,731	116,829
$ 41,346	$ 525,379	$ 84,607

Continued

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:				
Operating income (loss)	$ (3,073,911)	$ 13,301	$ 436,130	$ (3,796)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation/amortization	—	19	624	15
Interest earnings on loans classified as investing activity	—	(18,201)	—	—
Restatements and adjustments	—	—	—	—
Nonoperating miscellaneous income (expense)	—	—	23	—
(Increases) decreases in assets:				
Receivables	(31,663)	—	(3,249)	(2)
Due from other funds	(2,041)	—	—	—
Due from component units	—	—	—	—
Inventories	—	—	193	—
Prepaid items	—	—	18	—
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities	(164,560)	29	(9,617)	(624)
Due to other funds	3,035	4	—	225
Unemployment benefits payable	(31,197)	—	—	—
Compensated absences	—	9	70	(33)
Unearned revenue	(13,739)	—	9	—
Deposits payable	—	—	—	—
Total cash provided from (used for) operations	$ (3,314,076)	$ (4,839)	$ 424,201	$ (4,215)

	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Noncash Investing, Capital, and Financing Activities:				
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ —	$ —	$ —
Donated or transferred assets	—	—	—	—
Change in construction in progress as a result of accrual of accounts payable	—	—	—	29,490
Capital asset write-off	—	—	—	—
Assets acquired through the assumption of a liability	10,280	28,934	13,055	41,712
Increase in payables related to nonoperating expenses	—	—	—	—
Change in fair value of investments	(627)	(1,363)	165	(1,544)

Exhibit B-5

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ (12,331)	$ (2,640,607)	$ 15,260
2,726	3,384	25,819
—	(18,201)	—
166	166	—
40	63	168
3,139	(31,775)	(643)
—	(2,041)	2,288
—	—	271
38	231	(224)
(514)	(496)	(146)
15,767	(159,005)	127
(26)	3,238	(135)
—	(31,197)	—
73	119	184
(290)	(14,020)	(178)
54	54	—
$ 8,842	$ (2,890,087)	$ 42,791
$ 4,108	$ 4,108	$ 1,441
—	—	106
—	29,490	—
46	46	—
8,932	102,913	4,862
6,059	6,059	—
179	(3,190)	(257)

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2011 *Exhibit B-6*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents (Note 3)	$ 865,106	$ 5,686	$ 113,296	$ 4,225,313
Investments (Note 3):				
U.S. government and agency securities	—	—	753	—
Corporate bonds	—	—	—	2,578
Certificates of deposit	—	—	60,502	325
Mutual funds	122,117	—	—	—
State Treasurer investment pool	75,705,833	881,445	8,800	36,264
Unallocated insurance contracts	749,593	—	—	—
Synthetic guaranteed investment contracts	1,188,693	—	—	—
Non-State Treasurer pooled investments	3,941,548	—	—	—
Securities lending collateral (Note 3)	2,742,165	63,379	391	316,400
Receivables:				
Taxes receivable	—	—	—	123,800
Accounts receivable	27,780	—	—	13,488
Interest receivable	1,027	—	4	—
Contributions receivable	133,317	—	—	—
Due from other funds (Note 10)	46,783	—	—	20,678
Due from component units	16,298	—	—	—
Notes receivable	241,900	—	—	—
Sureties	—	—	876,970	95,174
Total Assets	85,782,160	950,510	1,060,716	4,834,020
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	485	4,887	—	544
Intergovernmental payable	—	—	—	502,149
Benefits payable	67,057	—	—	—
Obligations under securities lending	2,829,832	66,497	416	330,392
Deposits payable	—	—	—	2,133
Funds held for others	—	—	—	3,998,802
Total Liabilities	2,897,374	71,384	416	4,834,020
Net Assets				
Held in trust for:				
Employees' pension and other benefits	82,884,786	—	—	—
Pool participants	—	879,126	—	—
Individuals, organizations, and other governments	—	—	1,060,300	—
Total Net Assets	$ 82,884,786	$ 879,126	$ 1,060,300	$ —

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2011 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions:			
Contributions:			
Employer	$ 2,059,353	$ —	$ —
Members	1,512,985	—	—
Trustee deposits	—	—	125,271
Other contributions	37,207	—	—
Total contributions	3,609,545	—	125,271
Investment income:			
Investment earnings	13,004,772	34,652	3,537
Less investment expenses	(293,057)	(455)	(2)
Net investment income	12,711,715	34,197	3,535
Pool share transactions:			
Reinvestment of dividends	—	34,197	—
Net share purchases/(redemptions)	—	149,945	—
Net pool share transactions	—	184,142	—
Other additions:			
Fees, licenses, and fines	4,160	—	—
Interest earnings on loans	12,024	—	—
Miscellaneous	4,061	—	—
Total other additions	20,245	—	—
Total additions	16,341,505	218,339	128,806
Deductions:			
Claims and benefits	4,668,850	—	—
Medical insurance premiums	653,032	—	—
Refund of contributions	131,416	—	—
Distributions paid and payable	—	34,197	—
Payments in accordance with trust arrangements	—	—	143,099
Administrative expenses	19,911	—	—
Other deductions	10	—	—
Total deductions	5,473,219	34,197	143,099
Change in net assets	10,868,286	184,142	(14,293)
Net assets — July 1	72,016,500	694,984	1,074,593
Net assets — June 30	$ 82,884,786	$ 879,126	$ 1,060,300

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

NOTES TO THE FINANCIAL STATEMENTS

INDEX

DETAIL NOTES ON ALL FUNDS AND ACTIVITIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

Discretely Presented Component Units - Major

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.

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. The foundations are private not-for-profit organizations 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 foundations' financial statement formats 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
Appalachian State University
East Carolina University
Elizabeth City State University
Fayetteville State University
North Carolina Agricultural and Technical State University
North Carolina Central University
North Carolina State University
University of North Carolina at Asheville
University of North Carolina at Chapel Hill
University of North Carolina at Charlotte
University of North Carolina at Greensboro
University of North Carolina at Pembroke
University of North Carolina at Wilmington
University of North Carolina School of the Arts
Western Carolina University
Winston-Salem State University
Gateway University Research Park, Inc.
North Carolina School of Science and Mathematics
University of North Carolina Health Care System

Community Colleges

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

The aggregated financial information for community colleges also includes the financial data of the institutions' significant fund-raising foundations. Although the community colleges do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective community colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific community colleges, the foundations are considered component units of the community colleges and are included in the community colleges' financial statements. The foundations are private not-for-profit organizations 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 foundations' financial statement formats were modified to make them compatible with the community colleges' financial statement formats.

The following are the State's 58 community colleges:

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

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.

NOTES TO THE FINANCIAL STATEMENTS

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 nine-member board of trustees, all of whom are appointed by either the Governor or the General Assembly. Health benefits and contribution rates are determined by the General Assembly, with the State making significant contributions as an employer and through its funding of local boards of education.

Discretely Presented Component Units - Other

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. Seven 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. Also included in the Authority are 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.

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.

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, one of whom is a state official and nine of whom are appointed by either the Governor or the General Assembly. A financial benefit/burden relationship exists between the State and the Authority.

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 More at Four Pre-Kindergarten program. The State provides significant operating subsidies to the Partnership, creating a financial benefit/burden relationship.

Regional Economic Development Commissions:

North Carolina's Northeast Commission

North Carolina's Northeast Commission (Commission) is a legally separate organization created to facilitate economic development in the 16 counties in northeastern North Carolina. The Commission consists of 18 appointed members, with six members appointed by the Governor, six by the Speaker of the House, and six by the President Pro Tempore of the Senate. The Secretary of Commerce serves as an ex-officio member. The member of the State Board of Education appointed to represent the first education district serves as a non-voting ex-officio member. The State provides significant program and operating support to the Commission, creating a financial benefit/burden relationship.

Southeastern North Carolina Regional Economic Development Commission

The Southeastern North Carolina Regional Economic Development Commission (Commission) is a legally separate organization created to build economic strength in southeastern North Carolina. The Commission consists of 15 appointed members, with three appointed by the Governor, two by the Lieutenant Governor, five by the Speaker of the House, and five by the President Pro Tempore of the Senate. The member of the State Board of Education appointed to represent the fourth education district serves as a non-voting ex-officio member. The State provides significant program and operating support to the Commission, creating a financial benefit/burden relationship.

Western North Carolina Regional Economic Development Commission

The Western North Carolina Regional Economic Development Commission (Commission) is a legally separate organization created to improve economic opportunity in western North Carolina with sensitivity to the resources of that region. The Commission consists of 19 appointed members, with seven appointed by the N.C. House of Representatives, seven by the N.C. Senate, three by the Governor, and two by the Lieutenant Governor. The members of the State Board of Education appointed to represent the seventh and eighth education districts serve as non-voting ex-officio members. The State provides significant program and operating support to the Commission, creating a financial benefit/burden relationship.

NOTES TO THE FINANCIAL STATEMENTS

North Carolina Health Insurance Risk Pool, Inc.

The North Carolina Health Insurance Risk Pool (Pool), doing business as Inclusive Health, is a legally separate nonprofit 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 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.

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.

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.

Availability of Financial Statements

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

Constituent institutions in the UNC System
Community colleges
North Carolina State Ports Authority
The North Carolina Partnership for Children, Inc.
North Carolina Agricultural Finance Authority
North Carolina Global TransPark Authority
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, NC 27804	NC Housing Finance Agency P.O. Box 28066 Raleigh, NC 27611-8066
State Education Assistance Authority P.O. Box 14103 Research Triangle Park, NC 27709-4103	North Carolina Railroad Company 2809 Highwoods Boulevard, Suite 100 Raleigh, NC 27604-1000
North Carolina's Northeast Commission 119 West Water Street Edenton, NC 27932	Southeastern NC Regional Economic Development Commission P.O. Box 2556 Elizabethtown, NC 28337
Western NC Regional Economic Development Commission 134 Wright Brothers Way Fletcher, NC 28732	Rural Economic Development Center, Inc. 4021 Carya Drive Raleigh, NC 27610
North Carolina Biotechnology Center P.O. Box 13547 Research Triangle Park, NC 27709-3547	Gateway University Research Park, Inc. 2901 East Lee Street, Suite 2500 Greensboro, NC 27401-4904

The North Carolina Infrastructure Finance Corporation and the State Health Plan do not issue separate financial statements.

B. Basis of Presentation

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. Private sector standards of accounting and financial reporting issued on or before November 30, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent those pronouncements do not conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance. 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, 2011, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2010, 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, 2010. 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 assets 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.

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 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 2011, the unemployment benefits were also financed by repayable advances from the Federal Unemployment Account and federal recovery funds. 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 net profits of the fund are transferred periodically to the General Fund.

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.

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 deferred 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.

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 3) as well as investments held separately by the State and its component units. Investments are generally reported at fair value. 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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported. 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 are reported as assets in the accompanying financial statements. A corresponding liability is also reported for the amount owed to the broker at the termination of the agreement. Investments purchased with cash collateral are generally measured at fair value. Certain component units of the State deposit funds with the State Treasurer's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund. Additional disclosures about the State Treasurer's securities lending transactions are provided in Note 3.

G. Receivables and Payables

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

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

H. Inventories and Prepaid Items

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

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

I. 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 increased as a result of the construction. In proprietary funds and component units, interest costs incurred (if material) are capitalized during the period of construction.

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

Asset Class	Method	Estimated Useful Life
Buildings	Straight-line	10-100 years
Machinery and 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 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. Debt premiums and discounts of the N.C. Housing Finance Agency are deferred and amortized using the effective interest method. Debt discounts of the State Education Assistance Authority are 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 and the N.C. Housing Finance Agency and the State Education Assistance Authority (component units) 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 Assets/Fund Balance

Net Assets

Net assets are reported as restricted when constraints placed on them 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 asset use by enabling legislation are not reported as net asset 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 assets are 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 assets are available. For business-type activities and component units, when both restricted and unrestricted resources are available for use, generally it is the State's policy to use receipts first (which include restricted and unrestricted resources), then State appropriations as necessary. Receipts are defined as all funds collected by an agency or institution other than State appropriations. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based within the departmental management system in place at the agency or institution. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

Fund Balance

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

- The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

- Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the N.C. General Assembly, the State's highest level of decision-making authority. The N.C. General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

- Assigned fund balances are constrained by an intent to be used for specific purposes, but are neither restricted nor committed. The Office of State Budget and Management (OSBM) is authorized to assign unexpended funds at year-end as a carry forward of budget authority to the subsequent fiscal year. The North Carolina Constitution (Article III, Sec. 5(3)) provides that the "budget as enacted by the General Assembly shall be administered by the Governor." The Governor has delegated the authority to perform certain powers and duties of this role as the Director of the Budget to OSBM. At June 30, 2011, no fund balances were available to be assigned.

- 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 operating budget. At June 30, 2011, the balance of the Savings Reserve Account was $295.64 million, which represents 0.7% of the prior year's General Fund operating 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.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Balance / Net Assets Deficit

Primary Government

At June 30, 2011, the following enterprise fund reported a net assets deficit: Utilities Commission, $443 thousand.

At June 30, 2011, the following internal service fund reported a net assets deficit: Surplus Property, $305 thousand.

B. Material Violations of Legal or Contractual Provisions

Primary Government

During the first seven months of fiscal year 2011, the State Treasurer did not comply with the statutory requirement limiting the North Carolina Retirement Systems' holdings with the Alternative allocation to 5% of the pension fund's market value as per General Statute 147-69.2(9). However, as of June 30, 2011, the Retirement Systems' Alternative investment holdings were approximately 4.82% of the pension fund's market value. In addition, General Statute 147-69.2(9) was revised on June 23, 2011 to allow the North Carolina Retirement Systems' holding with the Alternative allocation to be increased to 7.5% of the pension fund's market value.

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, 2011. In accordance with the agreements, the Hospital is in the process of complying with such covenants and requirements by taking corrective action. 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 recover. In addition, to increase medical admissions at the Hospital, a seven day per week hospitalist program has been implemented by utilizing UNC Health Care System (HCS) physicians. Additionally, a UNC HCS cardiologist will be on site four days a week performing consults and providing medical direction for the Cardiac Rehabilitation program. UNC Management believes these actions will produce results to bring the Hospital in compliance with the covenants.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

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

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

External Investment Pool

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for the UNC Hospitals, 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 return 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.

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, 2011, there were thirteen 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.

NOTES TO THE FINANCIAL STATEMENTS

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 Assets
June 30, 2011

Assets:	
Cash and cash equivalents	$ 103,337
Other assets	361,899
Investments	91,065,932
Total assets	91,531,168
Liabilities:	
Other payables	209,498
Obligations under securities lending	3,679,852
Total liabilities	3,889,350
Net Assets:	
Internal:	
Primary government	83,184,374
Component units	3,648,532
External	808,912
Total net assets	$ 87,641,818

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Revenues:	
Investment income	$ 12,477,658
Expenses:	
Securities lending	9,122
Investment management	315,703
Total expenses	324,825
Net increase in net assets resulting from operations	12,152,833
Distributions to participants:	
Distributions paid and payable	(12,152,833)
Share transactions:	
Reinvestment of distributions	12,148,038
Net share redemptions	(1,336,369)
Total increase in net assets	10,811,669
Net assets:	
Beginning of year	76,830,149
End of year	$ 87,641,818

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 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.

Investments in nonparticipating contracts, such as nonnegotiable certificates of deposit, are reported at cost. Other investments held in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value. All other investments are reported at fair value. Fair values are determined daily for the Long-term Investment, Equity Investment, and OPEB Equity Investment portfolios and quarterly for the Real Estate Investment, Alternative Investment, Credit Investment and Inflation Protection Investment portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate trusts, limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. 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.

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, 2011, $15 million of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were exposed to custodial credit risk for nonnegotiable certificates of deposit and time deposits in the amount of $37.1 million and $303.6 million, respectively. 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 time deposits were purchased with cash collateral under the securities lending program. These securities were held by the counterparty and were not registered in the name of the State Treasurer.

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).

Investments

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

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 12,943,030	$ 5,077,657	$ 665,390	$ 4,203,498	$ 2,996,485
U.S. agencies	9,472,329	318,094	7,645,620	797,116	711,499
Mortgage pass-throughs	7,091,073	—	—	2,853	7,088,220
Collateralized mortgage obligations	199,922	194,213	—	—	5,709
Asset-backed securities	320,944	227,640	—	35,176	58,128
Repurchase agreements	1,074,000	1,074,000	—	—	—
Commercial mortgage-backed securities	151,757	42,641	—	—	109,116
Collective investment fund	187,552	187,552	—	—	—
Domestic corporate bonds	10,376,880	355,153	749,597	5,256,281	4,015,849
Foreign government bonds	10,705	—	—	10,705	—
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	877,464	877,464	—	—	—
Negotiable certificates of deposit	500,071	500,071	—	—	—
Repurchase agreements	521,745	521,745	—	—	—
Commercial paper	900,834	900,834			
Domestic corporate bonds	297,886	297,886	—	—	—
	44,926,192	$ 10,574,950	$ 9,060,607	$ 10,305,629	$ 14,985,006
Other securities:					
Equity based trust - domestic	20,539,275				
Equity based trust - international	13,355,836				
OPEB equity based trust- domestic	27,799				
OPEB equity based trust- international	8,845				
Alternative investments:					
Hedge funds	431,604				
Private equity investment partnerships	3,158,577				
Stock distributions	8,779				
Real estate trust funds	4,210,108				
Credit investments	2,474,759				
Inflation protection investments	1,583,430				
Total investment securities	$ 90,725,204				

In addition to the above amount, nonnegotiable certificates of deposit and time deposits in the amount of $37.1 million and $303.6 million, respectively, are reported as investments in the Condensed Statement of Net Assets 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	$ 11,625,514	0.000%-8.87%
U.S. agencies	9,270,183	0.00%-7.12%
Mortgage pass-throughs	6,580,168	4.0%-9.0%
Collateralized mortgage obligations	257,158	0.27%-6.5%
Commercial mortgage-backed securities	4,130,034	0.05%-8.41%
Asset-backed securities	421,123	0.30%-9.5%
Domestic corporate bonds	9,498,857	1.37%-10.50%
Foreign government bonds	10,000	5.125%
Repurchase agreements	1,074,000	0.01%-0.08%
Collective investment fund	187,552	0.20%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	1,085,381	0.23%-0.64%
Negotiable certificates of deposit	500,065	0.05%-0.44%
Repurchase agreements	521,745	0.01%-0.07%
Commercial paper	901,076	0.09%-0.33%
Domestic corporate bonds	368,370	0%-0.34%
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 (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 1.9 years as of June 30, 2011. 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 very sensitive to the potential of principal prepayments by mortgagees in periods of declining interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which 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.

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 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 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 to be purchased for the portfolio. 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 Fixed Income 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 very sensitive to the potential of principal prepayments by mortgagees in periods of declining 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):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ 9,450,109	$ —	$ 22,220	$ —	$ —	$ —
Collateralized mortgage obligations	14,269	11,629	25,414	62,631	85,979	—
Commercial mortgage-backed securities	22,749	16,178	18,234	78,905	15,618	73
Asset-backed securities	7,676	90,092	64,834	100,399	57,943	—
Repurchase agreements	1,074,000	—	—	—	—	—
Collective investment fund	—	—	—	—	—	187,552
Domestic corporate bonds	432,869	754,693	5,348,590	3,502,345	338,383	—
Foreign government bonds	—	—	10,705	—	—	—
Securities purchased with cash collateral under securities lending program:						
Asset-backed securities	506,141	3,301	17,137	11,515	339,370	—
Negotiable certificates of deposit	500,071	—	—	—	—	—
Repurchase agreements	521,745	—	—	—	—	—
Commercial paper	900,834	—	—	—	—	—
Domestic corporate bonds	—	197,669	75,754	—	—	24,463
Total	$ 13,430,463	$ 1,073,562	$ 5,582,888	$ 3,755,795	$ 837,293	$ 212,088

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 $3.1 billion were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

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 $5.482 billion and comprise 6.02% of the Investment Pool's total investments. These investments are held by the Short-term, Long-term and Inflation Protection portfolios 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):

	Carrying Value by Investment Type				
Currency	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Funds	OPEB Equity Based Trust- International	Total
Euro	$ 3,614,008	$ 427,592	$ 124,585	$ 2,105	$ 4,168,290
Pound Sterling	2,280,323	—	55,018	1,259	2,336,600
Japanese Yen	2,277,913	—	31,868	1,111	2,310,892
Hong Kong Dollar	794,175	—	57,856	591	852,622
Swiss Franc	784,825	—	3,426	413	788,664
Canadian Dollar	747,150	—	6,246	725	754,121
Australian Dollar	618,763	—	28,080	496	647,339
South Korean Won	346,938	—	—	206	347,144
Swedish Krona	311,053	—	2,419	156	313,628
Brazil Cruzeiro Real	277,308	—	1,353	12	278,673
Singapore Dollar	225,816	—	8,537	126	234,479
New Taiwan Dollar	213,967	—	—	2	213,969
Indian Rupee	182,414	—	—	147	182,561
Danish Krone	137,400	—	—	29	137,429
Other Currencies	543,783	—	472	307	544,562
Total	$ 13,355,836	$ 427,592	$ 319,860	$ 7,685	$ 14,110,973

The State Treasurer has no formal policy regarding the maximum amount of investments in international securities. At year-end, the retirement systems had approximately 18.8% invested in international securities.

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 securities 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 securities custodian. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities lent. Effective May 31, 2011, new securities lending guidelines were implemented. Under the guidelines cash can be invested in securities ranging from overnight to 397 days and the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 60 days. At year-end, the weighted average maturity of investments was approximately 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 securities 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 securities 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 money market fund, and are included on the Statement of Net Assets. 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 $278.5 million, and had accrued $150.5 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 securities lending program on or after May 31, 2011 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.

<u>Bond Proceeds Investment Accounts</u>

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. The investments are valued at amortized cost, which approximates fair value. In the State's financial statements, each fund's equity in these accounts is reported as investments.

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

Investment Type		Carrying Amount	Weighted Average Maturity (Days)
Debt securities:			
State and local government ...	$	7,205	7
Repurchase agreements		80,489	6
Total investments	$	87,694	

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. At year-end, Standard and Poor's rated investments in state and local government bonds as AAA and the liquidity provider as A-1.

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 securities.

<u>University of North Carolina (UNC) Hospitals Investment Account</u>

The State Treasurer has contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The UNC Hospitals are the only depositor in the Trust. However, the Trust is a participant 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 market prices provided by third party professionals.

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

Investment Type		Carrying Amount
Other securities:		
Equity based trust - domestic	$	263,343
Equity based trust - international		85,810
Total investment securities	$	349,153

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the UNC 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	$	20,426
Pound Sterling		12,214
Japanese Yen		10,777
Canadian Dollar		7,033
Hong Kong Dollar		5,732
Australian Dollar		4,811
Swiss Franc		4,004
South Korean Won		1,993
Swedish Krona		1,509
Indian Rupee		1,421
Singapore Dollar		1,222
Other Currencies		3,412
Total	$	74,554

NOTES TO THE FINANCIAL STATEMENTS

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 are based on trade date while the investment table is reported on settle date.

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 and Columbus Regional Healthcare 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 market prices provided by third party professionals.

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 securities:	
Equity based trust - domestic	$ 51,966
Equity based trust - international	18,248
Total investment securities	$ 70,214

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	$ 4,344
Pound Sterling	2,597
Japanese Yen	2,292
Canadian Dollar	1,496
Hong Kong Dollar	1,219
Australian Dollar	1,023
Swiss Franc	851
South Korean Won	424
Swedish Krona	321
Indian Rupee	302
Singapore Dollar	260
Other Currencies	725
Total	$ 15,854

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 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 valued at fair market value using market prices provided by third party professionals. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Real estate trust funds	$ 15,645
Private equity investment partnerships	39,955
Public equities - domestic	12,050
Public equities - international	4,182
Total investment securities	$ 71,832

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

Currency	Carrying Value by Investment Type: Public Equities - International
Canadian Dollar	$ 469
Euro	443
South Korean Won	420
Pound Sterling	395
Chinese (Yuan) Renminbi	391
Brazil Cruzeiro Real	308
Japanese Yen	303
New Taiwan Dollar	232
Russian Rouble	175
Indian Rupee	140
South African Rand	134
Hong Kong Dollar	118
Malaysian Ringgit	105
Swiss Franc	99
Mexican New Peso	79
Australian Dollar	73
Indonesian Rupiah	58
New Zealand Dollar	52
Thai Baht	43
Other Currencies	145
Total	$ 4,182

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	$ 14,123
Total	$ 14,123

Component Units

(University of North Carolina System, The Golden LEAF, Inc. and State Education Assistance Authority)

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	$ 36,768
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name	1,121
Total	$ 37,889

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

Uninsured and uncollateralized	$ 2,289
Total	$ 2,289

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

Uninsured and collateral held by pledging bank	$ 23,332
Total	$ 23,332

C. Investments Outside the State Treasurer

Investments in participating investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, limited partnerships, and a portion of the investments of the deferred compensation plans are reported at fair value. There are certain investments (held by the University of North Carolina System and the Golden LEAF, Inc.), including limited partnerships, for which a readily determinable fair value does not exist. These investments are carried at estimated fair values as provided by the respective fund managers of these investments or third party administrators. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. Investments in certificates of deposit, investment agreements, bank investment contracts, real estate, and real estate investment trusts are reported at cost. Investments in unallocated insurance contracts are reported at contract value. Detailed disclosures about investments held outside the State Treasurer are presented below.

NOTES TO THE FINANCIAL STATEMENTS

Primary Government

At year-end, 73% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina.

Supplemental Retirement Income Plan of North Carolina

The General Statutes place no specific investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the 401(k) 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. The 401(k) Plan does not have formal investment policies that address interest rate risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

At December 31, 2010, the 401(k) Plan of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 198,062	$ 55,152	$ 102,735	$ 39,670	$ 505
U.S. agencies	96,310	16,783	71,104	8,423	—
Mortgage pass-throughs	195,845	61,406	—	7,834	126,605
Collateralized mortgage obligations	7,542	—	7,542	—	—
State and local government	6,212	—	4,086	2,126	—
Asset-backed securities	30,147	6,121	10,165	935	12,926
Negotiable certificates of deposit	2,794	2,794	—	—	—
Debt mutual funds	151,630	—	7,385	144,245	—
Domestic corporate bonds	201,215	17,303	123,096	39,740	21,076
Foreign corporate bonds	50,239	2,298	35,285	9,140	3,516
Foreign government bonds	32,768	2,126	24,079	4,573	1,990
Securities purchased with cash collateral under securities lending program:					
Pooled debt funds	136,404	136,404	—	—	—
	1,109,168	$ 300,387	$ 385,477	$ 256,686	$ 166,618
Other securities:					
Balanced mutual funds	8,968				
International mutual funds	14,070				
Equity mutual funds	59,226				
Non-State Treasurer pooled investments	3,566,592				
Unallocated insurance contracts	616,478				
Total investment securities	$ 5,374,502				

In the above table, the underlying debt securities of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the Statement of Net Assets, the combination of the underlying securities and the wrap contract for fully benefit-responsive SGICs is reported at contract value. At year-end, the difference between the fair value of the underlying securities and the contract value of fully benefit-responsive SGICs was $39.68 million.

Interest Rate Risk. 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.

Credit Risk. The 401(k) Plan's investment policy 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. Any security downgraded by S&P's or Fitch below BBB- or by Moody's below Baa3 will be liquidated within six months. At year-end, the 401(k) 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	$ 47,355	$ —	$ —	$ —	$ —	$ —
Mortgage pass-throughs	—	—	—	—	—	161,169
Collateralized mortgage obligations	5,524	—	—	—	—	2,018
State and local government	—	—	6,212	—	—	—
Asset-backed securities	26,140	2,790	1,217	—	—	—
Negotiable certificates of deposit	—	—	2,794	—	—	—
Debt mutual funds	—	144,245	7,385	—	—	—
Domestic corporate bonds	3,166	20,307	82,339	93,340	2,063	—
Foreign corporate bonds	311	8,248	15,391	25,894	395	—
Foreign government bonds	2,564	1,536	15,561	13,107	—	—
Securities purchased with cash collateral under securities lending program:						
Pooled debt funds	—	—	—	—	—	136,404
Total	$ 85,060	$ 177,126	$ 130,899	$ 132,341	$ 2,458	$ 299,591

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the 401(k) Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2010, the investments of the 401(k) Plan of North Carolina 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	$ 198,062
U.S. agencies	96,310
Mortgage pass-throughs	195,845
Collateralized mortgage obligations	7,542
State and local government	6,212
Asset-backed securities	30,147
Negotiable certificates of deposit	2,794
Domestic corporate bonds	201,215
Foreign corporate bonds	50,239
Foreign government bonds	32,768
Total	$ 821,134

Securities Lending

The 401(k) Plan has a securities lending contract with State Street Bank and Trust Company ("State Street") as agent to lend available securities to broker-dealers and other entities (borrowers) in accordance with the agreement. State Street enters into loan contracts with borrowers on behalf of the 401(k) Plan whereby the borrowers of the securities agree to transfer to State Street either cash collateral or securities issued or guaranteed by the U. S. government or its agencies with a fair value of 102% of the value of the securities lent. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date.

As of December 2010, State Street lent U.S. Treasuries, U.S. agencies, domestic corporate bonds, foreign corporate bonds, and foreign governmental bonds. The collateral received for securities on loan is invested in the Securities Lending Quality Trust (SLQT), a commingled investment pool maintained by State Street. The SLQT invests in U.S. denominated debt securities and consists of two pools, a liquidity pool and a duration pool, with a weighted average of approximately 26 days and 22 days, respectively.

The 401(k) Plan has minimal credit risk exposure to borrowers because the amounts the 401(k) Plan owes the borrowers exceed the amounts the borrowers owe the system. The contract with State Street requires State Street to indemnify the 401(k) Plan if borrowers fail to return securities.

Other Primary Government Investments

The other primary government investments held outside the State Treasurer consisted almost entirely of balances maintained by the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan), and separate investment accounts held by trustees for special obligation debt issues to comply with IRS regulations on bond arbitrage, and escheated securities held for owners.

General Statute 143B-426.24(j) allows the North Carolina Supplemental Retirement Board of Trustees to acquire investment vehicles from any company authorized to conduct such business in this State or may establish, alter, amend and modify, to the extent it deems necessary or desirable, a trust for the purpose of facilitating the administration, investment and maintenance of assets acquired by the investment of deferred funds. All assets of the 457 Plan, including all deferred amounts, property and rights purchased with deferred amounts, and all income attributed thereto shall be held in trust for the exclusive benefit of the 457 Plan participants and their beneficiaries.

NOTES TO THE FINANCIAL STATEMENTS

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

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 17,524	$ 15,005	$ 2,164	$ 318	$ 37
U.S. Treasury STRIPS	41,302	243	41,059	—	—
U.S. agencies	18,073	2,308	13,985	1,772	8
Mortgage pass-throughs	2,450	—	22	17	2,411
Collateralized mortgage obligations	1,040	—	549	332	159
State and local government	3,625	2,500	699	398	28
Asset-backed securities	2,771	—	2,407	—	364
Negotiable certificates of deposit	549	549	—	—	—
Repurchase agreements	366,849	366,849	—	—	—
Annuity contracts	38,620	3,000	15,000	15,000	5,620
Debt mutual funds	151,915	15	87	151,803	10
Money market mutual funds	84,659	84,659	—	—	—
Domestic corporate bonds	73,341	39,809	33,064	399	69
Foreign corporate bonds	5,425	—	5,070	355	—
Foreign government bonds	4,783	384	3,886	513	—
Pooled debt funds	499,931	499,931	—	—	—
	1,312,857	$ 1,015,252	$ 117,992	$ 170,907	$ 8,706
Other securities:					
Balanced mutual funds	1,429				
International mutual funds	4,024				
Equity mutual funds	26,834				
Non-State Treasurer pooled investments	429,074				
Unallocated insurance contracts	133,115				
Domestic stocks	60,465				
Total investment securities	$ 1,967,798				

Interest Rate Risk and Credit Risk. The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants, 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):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ 18,032	$ —	$ —	$ 41	$ —	$ —
Mortgage pass-throughs	107	34	44	51	7	1,065
Collateralized mortgage obligations	398	27	44	36	4	531
State and local government	2,533	14	1,078	—	—	—
Asset-backed securities	2,771	—	—	—	—	—
Negotiable certificates of deposit	—	—	549	—	—	—
Repurchase agreements	1,913	—	—	—	—	—
Annuity contracts	—	38,620	—	—	—	—
Debt mutual funds	23	148,999	8	23	115	2,747
Money market mutual funds	84,645	—	—	—	—	14
Domestic corporate bonds	53,291	2,224	8,046	9,447	29	304
Foreign corporate bonds	—	1,405	1,597	2,423	—	—
Foreign government bonds	162	415	2,009	2,197	—	—
Pooled debt funds	—	—	—	—	—	499,931
Total	$ 163,875	$ 191,738	$ 13,375	$ 14,218	$ 155	$ 504,592

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the primary government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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
U.S. Treasuries	$ 14,568
U.S. agencies	15,839
Mortgage pass-throughs	2,450
Collateralized mortgage obligations	1,040
State and local government	1,125
Asset-backed securities	2,771
Negotiable certificates of deposit	549
Domestic corporate bonds	20,640
Foreign corporate bonds	5,425
Foreign government bonds	4,783
Total	$ 69,190

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.

Concentration of Credit Risk. The 457 Plan places no limit on the amount that may be invested in any one issuer.

NOTES TO THE FINANCIAL STATEMENTS

Component Units
(University of North Carolina System, State Education Assistance Authority and The Golden LEAF, Inc.)

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.

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

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 90,059	$ 25,015	$ 54,840	$ 6,610	$ 3,594
U.S. agencies	120,123	12,038	26,653	3,135	78,297
Mortgage pass-throughs	15,106	—	4,652	1,028	9,426
Collateralized mortgage obligations	60,873	9,691	87	727	50,368
State and local government	112	—	—	—	112
Asset-backed securities	4,076	3,206	—	—	870
Commercial paper	382	382	—	—	—
Annuity contracts	65	—	—	—	65
Debt mutual funds	139,459	53,543	39,281	42,122	4,513
Money market mutual funds	323,962	323,962	—	—	—
Domestic corporate bonds	26,082	9,510	12,111	2,736	1,725
Foreign government bonds	33	—	—	—	33
	780,332	$ 437,347	$ 137,624	$ 56,358	$ 149,003
Other securities:					
Balanced mutual fund	506				
International mutual funds	103,654				
Equity mutual funds	215,320				
Investments in real estate	35,999				
Real estate investment trusts	870				
Hedge funds	1,478,978				
Private equity limited partnerships	802,815				
Real assets limited partnerships	441,294				
Pooled investments	348				
Domestic stocks	181,191				
Foreign stocks	4,953				
Other	56,489				
Total investment securities	$ 4,102,749				

Limited Partnerships – The limited partnership positions are primarily held by the University of North Carolina at Chapel Hill. The University uses various external money managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. The University invests in these funds and partnerships to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. These investments generally include equity and bond funds. Certain investment funds expose the University to significant amounts of market risk by trading or holding derivative securities and by leveraging the securities in the fund. The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes.

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

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies	$ 1,523	$ —	$ —	$ —	$ —	$ 106,130
Mortgage pass-throughs	359	—	4	—	16	14,727
Collateralized mortgage obligations	135	582	1,904	417	20,255	37,580
State and local government	—	—	—	75	37	—
Asset-backed securities	—	57	6	—	4,013	—
Commercial paper	382	—	—	—	—	—
Debt mutual fund	2,410	23,001	53,216	3,258	596	56,978
Money market mutual funds	263,840	—	54,483	—	—	5,639
Domestic corporate bonds	690	3,615	19,886	1,870	21	—
Foreign government bonds	—	—	33	—	—	—
Total	$ 269,339	$ 27,255	$ 129,532	$ 5,620	$ 24,938	$ 221,054

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

	Carrying Amount	
Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	$ 18,388	$ —
U.S. agencies	12,496	—
Mortgage pass-throughs	14,727	—
Collateralized mortgage obligations	2,440	—
Commercial paper	382	—
Domestic corporate bonds	8,572	—
Domestic stocks	19,878	57
Foreign stocks	12	18
Total	$ 76,895	$ 75

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

	Carrying Amount			
Currency	Foreign stocks	Hedge funds	Private equity limited partnerships	Real assets limited partnerships
Euro	$ 90	$ 8,731	$ 69,115	$ 29,055
Pound Sterling	23	—	8,998	4,210
Australian Dollar	—	—	3,166	—
Canadian Dollar	191	—	2,602	—
Japanese Yen	46	—	10	—
Hong Kong Dollar	26	—	—	—
Mexican Peso	16	—	—	—
Swiss Franc	11	—	—	—
Total	$ 403	$ 8,731	$ 83,891	$ 33,265

NOTES TO THE FINANCIAL STATEMENTS

State Education Assistance Authority

The State Education Assistance Authority (the Authority) is authorized by the University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds in the same manner as the State Treasurer is required to invest, as discussed in Section A of this note.

Investments. In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Interest Rate Risk. The Authority does not have a formal investment policy that addresses interest rate risk. The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the Authority's investments (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1
Debt securities:		
Annuity contracts	$ 2,115	$ 2,115
Debt mutual funds	14,293	14,293
Money market mutual funds ..	183,269	183,269
	199,677	$ 199,677
Other securities:		
Investment agreements	29,107	
Balanced mutual funds	568,269	
International mutual funds	21,716	
Equity mutual funds	88,220	
Total investment securities	$ 906,989	

Credit Risk. The Authority has formally adopted investment policies for credit risk stating that certain investment obligations shall bear one of the two highest ratings by nationally recognized rating services. As of June 30, 2011, the Authority's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch Unrated
Annuity contracts	$ 2,115
Debt mutual funds	14,293
Money market mutual funds ..	183,269
Total	$ 199,677

Custodial Credit Risk. The Authority does not have a formal policy that addresses custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS

The Golden LEAF, Inc.

The General Statutes place no specific investment restrictions on The Golden LEAF, Inc. (Foundation). The Foundation is authorized by its Board of Directors to invest in any of the following broad asset classes: domestic equities, real estate, mutual funds, foreign equities, fixed income securities, cash equivalents, and alternatives.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation monitors the interest rate risk inherent in its portfolio by measuring the effective duration of its portfolio. The Foundation has no specific limitations with respect to duration. At year-end, the Foundation had the following investments and durations that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Effective Duration (in years)
Debt securities:		
U.S. Treasuries	$ 50,937	5.26
Money market mutual funds	11,188	0.08
Debt mutual funds	58,698	2.77
	120,823	
Other securities:		
Equity mutual funds	107,033	
Hedge funds	168,692	
Private equity limited partnerships	86,068	
Real assets limited partnerships	42,080	
Pooled investments	123,736	
Domestic stocks	144,475	
Total investment securities	$ 792,907	

Credit Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Foundation investment policy has no specific limitations with respect to credit quality, but provides that approximately 50% of the fixed income allocation will be allocated to U.S. Treasury strategies. As of June 30, 2011, the Foundation's investments were rated as follows (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch	
Investment Type	Aaa/AAA	Unrated
Money market mutual funds	$ 11,188	$ —
Debt mutual funds	8,995	49,703
Total	$ 20,183	$ 49,703

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 Foundation's investment policy does not limit the amount invested in foreign currency–denominated investments.

Custodial Credit Risk. The Foundation has no written policy on custodial credit risk: however, based on the nature of the investments the Foundation currently holds, management does not consider custodial risk to be significant.

NOTE 4: RECEIVABLES

Receivables at June 30, 2011, 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(1)	Total
Receivables, gross (excluding notes)	$ 3,626,711	$ 227,150	$ 39,249	$ 37,830	$ 14,766	$ 3,945,706
Allowance for doubtful accounts	(888,207)	(31,555)	—	(29)	(12)	(919,803)
Receivables, net	$ 2,738,504	$ 195,595	$ 39,249	$ 37,801	$ 14,754	$ 3,025,903
Notes receivable, gross	$ 70,857	$ 1,039	$ 73	$ 42,271	$ —	$ 114,240
Notes receivable, net	$ 70,857	$ 1,039	$ 73	$ 42,271	$ —	$ 114,240

(1) Includes balances due from fiduciary funds.

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are $25.37 million of accounts, notes, and intergovernmental 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)	$ 702,532	$ 5,650	$ 9,927	$ 6,571	$ 2,589	$ 727,269
Allowance for doubtful accounts	(110,601)	—	—	—	(10)	(110,611)
Receivables, net	$ 591,931	$ 5,650	$ 9,927	$ 6,571	$ 2,579	$ 616,658
Notes receivable, gross	$ —	$ 826,787	$ —	$ —	$ 82	$ 826,869
Notes receivable, net	$ —	$ 826,787	$ —	$ —	$ 82	$ 826,869

Within business-type activities, the significant receivables not expected to be collected within one year are $769.3 million of notes receivable in the EPA Revolving Loan Fund and $53.329 million of contributions receivable in the Unemployment Compensation Fund. Revenues of other enterprise funds are net of uncollectible amounts.

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NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2011 is presented below (dollars in thousands).

Governmental Activities:	Balance July 1, 2010 (as restated)	Additions	Deductions	Balance June 30, 2011
Capital Assets, nondepreciable:				
Land and permanent easements	$ 13,728,792	$ 676,567	$ (18,309)	$ 14,387,050
Art, literature, and other artifacts	85,506	1,395	(74)	86,827
Construction in progress	2,127,760	1,797,095	(1,571,431)	2,353,424
Computer software in development	55,788	73,117	—	128,905
Total capital assets-nondepreciable	15,997,846	2,548,174	(1,589,814)	16,956,206
Capital Assets, depreciable:				
Buildings	2,947,161	215,224	(32,684)	3,129,701
Machinery and equipment	1,581,511	99,020	(80,099)	1,600,432
General infrastructure	187,388	26,262	(1,936)	211,714
State highway system	26,043,204	1,274,471	(66,372)	27,251,303
Computer software	23,244	222	—	23,466
Total capital assets-depreciable	30,782,508	1,615,199	(181,091)	32,216,616
Less accumulated depreciation/amortization for:				
Buildings	(829,257)	(55,995)	6,379	(878,873)
Machinery and equipment	(975,892)	(108,681)	59,437	(1,025,136)
General infrastructure	(69,918)	(4,331)	1,232	(73,017)
State highway system	(7,239,061)	(545,026)	65,044	(7,719,043)
Computer software	(6,288)	(1,158)	—	(7,446)
Total accumulated depreciation/amortization	(9,120,416)	(715,191)	132,092	(9,703,515)
Total capital assets-depreciable, net	21,662,092	900,008	(48,999)	22,513,101
Governmental activities capital assets, net	$ 37,659,938	$ 3,448,182	$ (1,638,813)	$ 39,469,307

Business-type Activities:

	Balance July 1, 2010 (as restated)	Additions	Deductions	Balance June 30, 2011
Capital Assets, nondepreciable:				
Land and permanent easements	$ 53,227	$ 65,028	$ —	$ 118,255
Construction in progress	260,546	318,353	—	578,899
Total capital assets-nondepreciable	313,773	383,381	—	697,154
Capital Assets, depreciable:				
Buildings	50,516	63	(78)	50,501
Machinery and equipment	14,417	1,326	(612)	15,131
General infrastructure	15,654	—	—	15,654
Computer software	174	6	—	180
Total capital assets-depreciable	80,761	1,395	(690)	81,466
Less accumulated depreciation for:				
Buildings	(19,729)	(1,213)	16	(20,926)
Machinery and equipment	(7,675)	(1,639)	504	(8,810)
General infrastructure	(9,743)	(502)	—	(10,245)
Computer software	(105)	(30)	—	(135)
Total accumulated depreciation	(37,252)	(3,384)	520	(40,116)
Total capital assets-depreciable, net	43,509	(1,989)	(170)	41,350
Business-type activities capital assets, net	$ 357,282	$ 381,392	$ (170)	$ 738,504

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

Governmental activities:	
General government	$ 37,119
Primary and secondary education	861
Higher education	49
Health and human services	12,386
Economic development	829
Environment and natural resources	13,302
Public safety, corrections, and regulation	50,005
Transportation	597,150
Agriculture	3,490
Total depreciation expense	$ 715,191
Business-type activities:	
N.C. State Lottery	$ 624
EPA Revolving Loan	19
N.C. Turnpike Authority	15
Regulatory programs	1,444
North Carolina State Fair	621
Other business-type activities	661
Total depreciation expense	$ 3,384

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, 2011, was as follows (dollars in thousands):

University of North Carolina System:

	Balance July 1, 2010 (as restated)	Additions	Deductions	Balance June 30, 2011
Capital Assets, nondepreciable:				
Land and permanent easements	$ 320,540	$ 11,712	$ (8)	$ 332,244
Art, literature, and other artifacts	139,494	4,131	(200)	143,425
Construction in progress	935,505	741,031	(614,492)	1,062,044
Computer software in development	53,326	8,106	(44,351)	17,081
Other intangible assets	1,000	—	—	1,000
Total capital assets-nondepreciable	1,449,865	764,980	(659,051)	1,555,794
Capital Assets, depreciable:				
Buildings	8,829,906	617,913	(6,325)	9,441,494
Machinery and equipment	1,726,317	215,799	(88,281)	1,853,835
Art, literature, and other artifacts	202	—	—	202
General infrastructure	1,376,100	205,073	(1,727)	1,579,446
Computer software	45,223	56,474	(818)	100,879
Other intangible assets	—	128	—	128
Total capital assets-depreciable	11,977,748	1,095,387	(97,151)	12,975,984
Less accumulated depreciation/amortization for:				
Buildings	(2,354,821)	(204,544)	3,883	(2,555,482)
Machinery and equipment	(1,050,107)	(110,765)	45,678	(1,115,194)
Art, literature, and other artifacts	(82)	(18)	—	(100)
General infrastructure	(407,984)	(55,653)	781	(462,856)
Computer software	(24,372)	(9,538)	799	(33,111)
Total accumulated depreciation/amortization	(3,837,366)	(380,518)	51,141	(4,166,743)
Total capital assets-depreciable, net	8,140,382	714,869	(46,010)	8,809,241
University of North Carolina System capital assets, net	$ 9,590,247	$ 1,479,849	$ (705,061)	$ 10,365,035

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2011, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of $13.586 million and net depreciable capital assets of $166.255 million.

Community Colleges:

	Balance July 1, 2010 (as restated)	Additions	Deductions	Balance June 30, 2011
Capital Assets, nondepreciable:				
Land and permanent easements	$ 155,561	$ 3,327	$ (198)	$ 158,690
Art, literature, and other artifacts	345	—	—	345
Construction in progress	106,126	116,031	(89,437)	132,720
Total capital assets-nondepreciable	262,032	119,358	(89,635)	291,755
Capital Assets, depreciable:				
Buildings	2,155,974	118,778	(682)	2,274,070
Machinery and equipment	274,075	53,764	(9,794)	318,045
Art, literature, and other artifacts	535	5	—	540
General infrastructure	135,200	13,896	(20)	149,076
Computer software	1,207	—	—	1,207
Total capital assets-depreciable	2,566,991	186,443	(10,496)	2,742,938
Less accumulated depreciation/amortization for:				
Buildings	(517,066)	(45,127)	151	(562,042)
Machinery and equipment	(115,586)	(18,853)	7,602	(126,837)
Art, literature, and other artifacts	(66)	(16)	—	(82)
General infrastructure	(32,930)	(3,657)	908	(35,679)
Computer software	(252)	(121)	—	(373)
Total accumulated depreciation/amortization	(665,900)	(67,774)	8,661	(725,013)
Total capital assets-depreciable, net	1,901,091	118,669	(1,835)	2,017,925
Community Colleges capital assets, net	$ 2,163,123	$ 238,027	$ (91,470)	$ 2,309,680

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2011, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of $3.731 million and net depreciable capital assets of $6.878 million.

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 2002A, to provide interim financing for the construction of capital projects. The amount of outstanding commercial paper as of June 30, 2011 was $73.65 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, 2011, the amount of outstanding commercial paper was $10 million.

The Rex Healthcare entered into a note agreement for a short-term revolving line of credit for an amount up to $1.25 million to support short-term normal operating expenses and to enhance liquidity. Interest is due and payable monthly at 3.0%. The outstanding principal amount along with any accrued interest will be due upon maturity date of March 8, 2012. At June 30, 2011, the amount outstanding was $140 thousand.

State Education Assistance Authority

The State Education Assistance Authority obtained a line of credit under the Loan Participation Purchase Program, through the United States Department of Education (the Department), to finance Federal Family Education Loan Program (FFELP) student loans for the 2009-2010 academic year. At June 30, 2011, there was no outstanding balance.

Short-term debt activity for the University of North Carolina System and the State Education Assistance Authority, for the fiscal year ended June 30, 2011, are as follows (dollars in thousands):

	Balance July 1, 2010	Draws	Repayments	Balance June 30, 2011
University of North Carolina System				
Commercial Paper Program	$ 59,784	$ 40,000	$ (16,134)	$ 83,650
Line of Credit	—	140	—	140
State Education Assistance Authority				
Line of Credit	823,685	—	(823,685)	—

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 Classification	Changes in Fair Value Increase (Decrease)	Fair Value at June 30, 2011 Classification	Fair Value at June 30, 2011 Asset (Liability)	Notional
Primary Government					
Governmental Activities					
Investment derivatives:					
Swaptions	Unrestricted investment earnings	$ (7,699)	Accounts payable	$ (71,993)	$ 675,955
Basis swaps	Unrestricted investment earnings	7,862	Investments	19,792	675,955
Fiduciary Funds					
Investment derivatives:					
U.S. dollar equity futures	Investment earnings	$ 9,338	State Treasurer Investment Pool	$ 9,338	$ 380,247
Commodity futures:					
Wheat futures	Investment earnings	(7,854)	State Treasurer Investment Pool	(7,854)	4,310,000 Bushels
Crude oil futures	Investment earnings	(4,862)	State Treasurer Investment Pool	(4,862)	1,362,000 U.S. barrels
Corn futures	Investment earnings	(3,991)	State Treasurer Investment Pool	(3,991)	6,095,000 Bushels
Natural gas futures	Investment earnings	(2,999)	State Treasurer Investment Pool	(2,999)	11,410,000 MMBTUs
Heating oil futures	Investment earnings	(2,697)	State Treasurer Investment Pool	(2,697)	12,012,000 U.S. gallons
Component Units					
University of North Carolina System					
Cash flow hedges:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Deferred outflow of resources	$ 5,012	Hedging derivatives liability	$ (15,532)	$ 119,685
N.C. State University	Deferred outflow of resources	1,380	Hedging derivatives liability	(9,015)	74,655
N.C. Central University	Deferred outflow of resources	190	Hedging derivatives liability	(862)	7,822
UNC Hospitals	Deferred outflow of resources	2,988	Hedging derivatives liability	(15,822)	133,760
Total		$ 9,570		$ (41,231)	$ 335,922
N.C. Housing Finance Agency					
Cash flow hedges:					
Pay-fixed interest rate swaps:	Deferred outflow of resources	$ (1,640)	Hedging derivatives liability	$ (5,058)	$ 67,480

For the primary government, the fair values of derivative instruments were measured using market prices except as follows. The fair values of swaptions and basis swaps were estimated using the zero coupon method. This method calculates the future net settlement payments, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. Forecasted payments are 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 of the swaps.

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 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.

The fair values of the interest rate swaps at UNC Hospitals were estimated by Bank of America, N.A. (BOA) using the zero-coupon method. This method calculates the present value of 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 LIBOR due on the date of each future net settlement on the swap.

The fair values of the interest rate swaps at the N.C. Housing Finance Agency were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming 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.

On August 31, 2010, the State refunded $499.87 million of variable-rate bonds and terminated interest rate swaps that were hedging interest rate risk associated with those bonds. Accordingly, the accumulated change in fair value of the swaps that was reported as a deferred outflow of $49.9 million at July 1, 2010, was used to reduce the net carrying amount of the refunded bonds for the purpose of calculating the deferred loss on refunding (see Note 8.F).

B. Hedging Derivative Instruments

<u>**Component Units**</u>

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, 2011 (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 Series bonds	$ 19,685	10/3/00	11/1/25	Pay 5.24%; receive SIFMA Swap index
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2001B&C and 2002A Series bonds	100,000	12/1/07	12/1/36	Pay 3.314%; receive 67% 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% 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
N.C. Central University					
Pay-fixed interest rate swap	Hedge changes in cash flows on Housing Facilities Revenue 2003A Series bonds	7,822	4/1/04	10/1/24	Pay 3.52%; receive 70% LIBOR
UNC Hospitals					
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2003A&B Series bonds	94,055	2/13/03	2/1/29	Pay 3.48%; receive 67% LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2009A Series bonds	39,705	2/12/09	2/1/24	Pay 3.61%; receive 67% 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

Credit risk. At year-end, UNC at Chapel Hill (University) was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. During fiscal year 2009, the counterparty for swap 1, Lehman Brothers Special Financing, Inc., filed for bankruptcy and no longer disburses the variable payment scheduled under the agreement to the University. To account for this consideration and as allowed under the swap documents, the University nets its scheduled fixed payment against that payment that should be received from Lehman Brothers Special Financing, Inc., based upon the Securities Industry and Financial Markets Association Swap Index (SIFMA).

Interest rate risk. The 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, 2011. 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 calculated values as of June 30, 2011. As the yield curve rises, 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 when its bonds begin to trade at a yield above the referenced index rate. For the first swap, basis risk also exists since swap payments are received semi-annually while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a SIFMA swap to a percentage of LIBOR swap.

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 swap may terminate if the University or the counterparty fails to perform under terms of the contract.

Rollover risk. The University is not exposed to rollover risk for the first swap based solely upon the maturity date of the bonds since the termination date of the swap, November 1, 2025, is prior to the maturity date of the hedged bonds, December 1, 2025. However, since the underlying hedged variable rate debt is in the form of variable rate demand bonds, the University is subject to rollover risk in the event that the bonds are tendered and cannot be remarketed by the remarketing agent. The University is exposed to rollover risk for the second swap based upon the maturity date of the underlying debt and due to the form of the debt as variable rate demand bonds.

Future swaps. The University has also entered into a future dated interest rate swap agreement for $150 million to be effective December 1, 2011 on variable rate bonds.

N.C. State University

Credit risk. At year-end, N.C. State University (University) was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. However, should interest rates change and the fair value of swaps becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's Investors Service (Moody's) or BBB as issued by Standard & Poor's (S&P) or Fitch Ratings (Fitch). Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A or better.

Interest rate risk. The 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, 2011. 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, 2011. Both of the swaps outstanding have termination dates greater than 15 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 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, 2011, the SIFMA rate was 0.09%, 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.

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, 2011. 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 swaps expose the Foundation 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 Foundation receives 70% of a one-month LIBOR from the counterparty and pays a floating rate to its bondholders set by the Remarketing Agent. The Foundation incurs basis risks when its bond trade at a yield above 70% of LIBOR. If the relationship of the Foundation's bonds trade to a percentage of LIBOR greater than 70%, the Foundation 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 Foundation being required to make an unanticipated termination payment. As of June 30, 2011 no termination events had occurred and there was no known date when the derivative instrument may be terminated. The swap agreement is terminated if the Foundation or the counterparty fails to perform under the contract. There were no out-of-the ordinary termination events as of June 30, 2011.

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

UNC Hospitals

Credit risk. At year-end, UNC Hospitals (Hospitals) was not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's fair value. UNC Hospitals has a policy of requiring collateral to support hedging derivative instruments subject to credit risk. This policy states that at such time that BOA's ratings falls below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS, and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company, or financial institution organized under the laws of the United States (or any state or a political subdivision thereof). As of June 30, 2011, the credit rating for Bank of America, N.A. is Aa3 by Moody's and A+ by S&P. The Hospitals entered into a master agreement with the ISDA in January 2003. In this agreement, master netting arrangements were established between the contractual parties. All derivative instruments held by the Hospitals are subject to this agreement.

Interest rate risk. The 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, 2011. 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, 2011.

Basis risk. The Hospitals receives 67% of one-month LIBOR Index from the counterparty 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 Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The Hospitals are exposed to termination risk because the derivative contract uses 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.

N.C. Housing Finance Agency

The following table displays the objectives and terms of the N.C. Housing Finance Agency's (Agency) hedging derivative instruments outstanding at June 30, 2011 (dollars in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 15C Series bonds	$ 15,285	5/8/03	7/1/32	Pay 3.508% ; receive 63% LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 16C Series bonds	15,615	9/16/03	7/1/32	Pay 3.81% ; receive 63% LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 17C Series bonds	18,580	12/11/03	7/1/33	Pay 3.725% ; receive 63% LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 18C Series bonds	18,000	4/20/04	1/1/35	Pay 3.288% ; receive 63% LIBOR plus 0.30%

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

Interest rate risk. Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of one-month LIBOR plus thirty basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA Index, which was 0.09% as of June 30, 2011. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

Credit risk. At year-end, the Agency was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. For all swaps, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for S&P. The Agency has no master netting arrangement.

Basis risk. The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The swap contracts for the Agency utilize a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 20.54 basis points due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds.

Termination risk. Series 16C, 17C and 18C swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. Series 15C swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P. To date, no termination events have occurred. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

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 primary government's swaptions and basis swaps, which are reported as investment derivative instruments, are exposed to the following risks that could give rise to financial loss:

Credit risk. At year-end, the State had no net exposure to credit risk because the aggregate fair values of the basis swap and swaptions were negative. For the basis swaps and swaptions, if the counterparty's credit quality is rated lower than Baa1 (Moody's), BBB+ (S&P), or BBB+ (Fitch) by two of the three rating agencies, then the swap will need to be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State (Fitch credit ratings only apply to counterparty 1). If the counterparty is required to collateralize a portion of the derivative, then the collateral will be posted (net of the effect of applicable netting arrangements) with a third party custodian or secured party. The State is not required to post collateral. The State has entered into a master netting agreement with each of the three basis swap and swaption counterparties which allows the party by whom the larger aggregate amount would have been payable to pay the other party the excess of the larger amount over the smaller amount as due on a given date.

An additional termination event for the basis swaps occurs if counterparty 1 or 3 has one or more issues of rated, unsecured, unenhanced senior debt or long-term deposits outstanding and none of such issues has at least two ratings of at least Baa2 or higher as determined by Moody's, or BBB or higher as determined by S&P or Fitch. For counterparty 2, an additional termination event occurs if it has one or more issues of rated, unsecured, unenhanced senior debt outstanding and none of such issues has at least two ratings of Baa2 or higher (Moody's), BBB or higher (S&P) or counterparty 2 fails to have a rating on long-term, unsecured, unenhanced senior debt.

The basis swaps and swaptions may be optionally terminated by the State with two days notice for counterparties

1 and 2 or with five days notice for counterparty 3. The counterparties can only terminate if the State, at any time during the term of the swap transaction, fails to maintain by at least two rating agencies, ratings of at least Baa2 or higher as determined by Moody's, or BBB or higher as determined by S&P or Fitch (Fitch does not apply to counterparty 2).

The following table summarizes, for basis swaps, the State's maximum exposure to credit risk at year-end reduced by liabilities included in netting arrangements:

Derivative Instrument	Fair Value	Counterparty	Counterparty Credit Ratings S&P/Fitch	Counterparty Credit Ratings Moody's
Basis swap, G.O. Series 2003A, 2003B, and 2004A	$ 10,103	Counterparty 1	AA / AA-	Aa2
Basis swap, G.O. Series 2003A, 2003B, and 2004A	6,062	Counterparty 2	A / A+	A2
Basis swap, G.O. Series 2003A, 2003B, and 2004A	3,627	Counterparty 3	AA– / AA–	Aa1
Total*	$ 19,792			
Less: Netting arrangement liability — Swaption	(35,995)	Counterparty 1		
Less: Netting arrangement liability — Swaption	(21,599)	Counterparty 2		
Less: Netting arrangement liability — Swaption	(14,399)	Counterparty 3		
Net exposure to credit risk	$ (52,201)			

* The fair value total represents the maximum risk of loss that would be recognized at the reporting date if all counterparties failed to perform as contracted, without respect to any netting arrangements. The State has no net exposure to credit risk since the netting arrangement liabilities for the swaptions exceed the total fair value of the basis swaps.

Interest rate risk. The State is exposed to interest rate risk on its basis swaps. The fair values of the basis swaps are sensitive to interest rate changes. As the relationship between LIBOR and SIFMA change, the net basis swap cash flow will be affected. An increase in the LIBOR rate greater than in SIFMA rate will have a positive impact on net cash flow and likewise an increase in the SIFMA rate greater than in the LIBOR rate will have a negative impact on net cash flow. The State is also exposed to interest rate risk on its swaptions. The valuations of these instruments are highly sensitive to interest rate changes. The swaption valuations reflect a decline in interest rates from the prior fiscal year. A replacement transaction would generate a net present value savings approximately equal to these valuation amounts. The State pays SIFMA and receives 70% of LIBOR plus 69 basis points (28 basis points relate to swaptions) on a notional amount of $675.95 million. On June 30, 2011, SIFMA was 0.09% and 70% of LIBOR was 0.13%.

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

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. The two SGICs with Prudential Insurance Company of America (Prudential) which are fully benefit responsive, provided an average credit rating yield of 4.63% and 3.11%, respectively. The fair value of the securities covered by the contracts as of December 31, 2010, is $1.02 billion and the contract value is $978.22 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. The two SGICs with Prudential which are fully benefit responsive, provided an average credit rating yield of 4.79% and 2.76%, respectively. The fair value of the securities covered by the contracts as of December 31, 2010, is $218.89 million and the contract value is $210.48 million. The contracts are unrated and have a maturity of less than one year.

Both the Supplemental Retirement Income Plan and the Deferred Compensation Plan have entered into wrap contracts with Prudential and Great-West Life and Annuity Insurance Company (Great-West) to assure that the crediting rate on participant investments will not be less than zero. However, the wrap contracts with Prudential and Great-West were determined to be insignificant.

NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2011, was as follows (dollars in thousands):

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	$5,270,660	$ 774,745	$ (1,199,200)	$ 4,846,205	$ 375,705
Special indebtedness:					
Lease-purchase revenue bonds	215,045	—	(10,000)	205,045	10,000
Certificates of participation	872,600	—	(47,740)	824,860	48,550
Limited obligation bonds	580,705	500,000	(19,960)	1,060,745	33,005
GARVEE bonds	434,825	—	(61,745)	373,080	40,535
Less deferred amounts:					
On refunding	(90,493)	(56,436)	21,314	(125,615)	—
Add issuance premium	353,147	191,035	(102,964)	441,218	—
Total bonds and similar debt payable	7,636,489	1,409,344	(1,420,295)	7,625,538	507,795
Notes payable	30,538	—	(5,500)	25,038	5,147
Capital leases payable	24,815	—	(2,146)	22,669	1,906
Compensated absences	420,410	256,649	(264,440)	412,619	35,718
Net pension obligation	429	25,535	(23,012)	2,952	—
Workers' compensation	82,150	51,654	(21,117)	112,687	33,649
Deferred death benefit payable	500	—	(130)	370	240
Pollution remediation payable	6,549	525	(210)	6,864	456
Court judgment payable	731,703	—	—	731,703	—
Governmental activity long-term liabilities	$8,933,583	$1,743,707	$ (1,736,850)	$ 8,940,440	$ 584,911
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 622,758	$ 233,920	$ —	$ 856,678	$ —
Less deferred amounts:					
For issuance discounts	(2,244)	—	116	(2,128)	—
Total bonds payable	620,514	233,920	116	854,550	—
Notes payable	74,565	195,812	(1,347)	269,030	342
Annuity and life income payable	27,157	13,613	(2,150)	38,620	3,000
Federal unemployment account advances	2,149,524	1,430,322	(1,043,677)	2,536,169	800,000
Compensated absences	6,492	3,656	(3,532)	6,616	518
Business-type activity long-term liabilities	$2,878,252	$1,877,323	$ (1,050,590)	$ 3,704,985	$ 803,860

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 $6.212 million and capital leases payable of $1.36 million.

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2011, was as follows (dollars in thousands):

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$2,874,885	$ 343,170	$ (163,930)	$ 3,054,125	$ 161,510
Certificates of participation	29,050	—	(2,150)	26,900	2,230
Less deferred amounts:					
For issuance discounts	(25,764)	(144)	962	(24,946)	—
On refunding	(30,103)	(2,196)	2,709	(29,590)	—
Add issuance premium	66,297	4,865	(4,525)	66,637	—
Total bonds payable	2,914,365	345,695	(166,934)	3,093,126	163,740
Notes payable	170,619	136,903	(12,565)	294,957	82,889
Capital leases payable	224,402	29,344	(14,371)	239,375	12,826
Arbitrage rebate payable	397	25	(269)	153	128
Annuity and life income payable	16,952	2,504	(82)	19,374	1,544
Compensated absences	325,927	238,120	(226,974)	337,073	38,204
Pollution remediation payable	30	55	(30)	55	45
Liability insurance trust fund payable	48,292	11,425	(8,350)	51,367	12,748
Total long-term liabilities	$3,700,984	$ 764,071	$ (429,575)	$ 4,035,480	$ 312,124

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2011, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $463.006 million, of which $27.298 million was due within one year and $435.708 million was due in more than one year.

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	$1,470,170	$ —	$ (137,040)	$ 1,333,130	$ 171,450
Less deferred amounts:					
For issuance discounts	(17)	—	—	(17)	—
Add issuance premium	8,763	—	(2,243)	6,520	—
Total bonds payable	1,478,916	—	(139,283)	1,339,633	171,450
Arbitrage rebate payable	1,104	37	(723)	418	361
Compensated absences	997	338	(317)	1,018	127
Total long-term liabilities	$1,481,017	$ 375	$ (140,323)	$ 1,341,069	$ 171,938

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$2,113,650	$1,399,000	$ (1,623,782)	$ 1,888,868	$ 90,401
Less deferred amounts:					
For issuance discounts	—	(37,844)	742	(37,102)	—
Total bonds payable	2,113,650	1,361,156	(1,623,040)	1,851,766	90,401
Notes payable	1,560,525	—	(151,048)	1,409,477	151,000
Arbitrage rebate payable	688	—	(688)	—	—
Compensated absences	354	—	(12)	342	16
Total long-term liabilities	$3,675,217	$1,361,156	$ (1,774,788)	$ 3,261,585	$ 241,417

B. Bonds, Special Indebtedness, and Notes Payable

Bonds, special indebtedness, and notes payable at June 30, 2011 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Balance
Primary Government:				
Governmental activities				
General obligation bonds	0.06% - 5.50%*	2030	$ 7,475,730	$ 4,846,205
Special indebtedness:				
Lease-purchase revenue bonds	3.50% - 5.25%	2024	272,045	205,045
Certificates of participation	3.25% - 5.25%	2028	1,064,840	824,860
Limited obligation bonds	2.00% - 5.25%	2031	1,100,000	1,060,745
GARVEE Bonds	2.00% - 5.21%	2021	530,085	373,080
Notes payable	1.95% - 3.86%	2018	35,239	25,038
Business-type activities				
Revenue bonds**	5.32% - 6.70%	2041	$ 856,678	$ 856,678
Notes payable	3.54% - 5.00%	2047	269,171	269,030
Component Units:				
University of North Carolina System				
Revenue bonds**	0.10% - 10.00%*	2040	$ 3,530,498	$ 3,054,125
Certificates of participation	3.38% - 5.00%	2036	38,745	26,900
Notes payable**	0.46% - 6.25%*	2033	302,856	294,957
North Carolina Housing Finance Agency				
Revenue bonds	3.29% - 6.40%*	2039	$ 3,724,241	$ 1,333,130
State Education Assistance Authority				
Revenue bonds	0.78% - 4.00%*	2041	$ 4,504,850	$ 1,888,868
Notes payable	0.25%*	2014	1,577,000	1,409,477

* For variable rate debt, interest rates in effect at June 30, 2011 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 $448.82 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, 2011 totaled $1.228 billion as follows: university projects $472 million, psychiatric hospitals $218 million, correctional facilities $56 million, guaranteed energy savings contracts $372 million, State and other projects $88 million, and repairs and renovations $22 million. At June 30, 2011, 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.

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.

Primary Government

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

Governmental Activities

State of North Carolina Variable Rate General Obligation Bonds, Series D, E, F, and G

On May 1, 2002 the State issued tax-exempt variable rate general obligation bonds, ($88.75 million, series D through G) in the total amount of $355 million that have a final maturity date of May 1, 2021. Each series of bonds is subject to mandatory sinking fund redemption on May 1, 2013 thru May 1, 2021. The bonds represent a consolidation of Public Schools Buildings Bonds, Clean Water Bonds and Higher Education Bonds. The bonds currently bear interest at a weekly rate, and the bonds are subject to purchase at a price equal to principal plus interest on demand with seven days notice and delivery to the Tender Agent, U.S. Bank, N.A.

The State's Remarketing Agents, Banc of America Securities LLC (series 2002D), JP Morgan Securities (series 2002E), Goldman Sachs (series 2002F) and Wells Fargo Bank, N.A. (series 2002G) 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% per annum of the outstanding principal amount of the bonds assigned to each agent.

Under four separate standby bond purchase agreements ("agreements") between the State and Landesbank Hessen-Thuringen Girozentrale ("the Bank"), a Liquidity Facility has been established for each series 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. The State is required to pay the Bank a commitment fee quarterly in arrears, until the expiration date or the termination date of the agreements. In an amended agreement entered into on March 11, 2010, the commitment fee increased from 0.10% to 0.35% effective July 15, 2010.

Under the agreements, 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. The Bank Bond interest rate is an adjustable rate tied to the prime rate or federal funds rate with a maximum of 18%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Bank, such bonds are no longer considered Bank Bonds. Payment of interest to the Bank is due quarterly for each period in which Bank Bonds are outstanding.

Included in the agreements is a take out provision, in the event the Remarketing Agent is unable to resell any bonds that are "put" within 180 days of the purchase date. In this situation, the State is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the State to redeem Bank Bonds in equal quarterly installments of principal plus accrued interest. The principal payments will commence with the first business day of any such month (January, April, July, October) that is at least 180 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 $355 million of variable rate bonds was "put" and not resold, the State would be required to pay $71 million a year for five years under the installment loan agreement with the Liquidity Provider plus interest at the Bank Bond Rate. The Bank Bond Rate would be based on the base rate as shown in the table below. At June 30, 2011, there were no Bank Bonds held under the Liquidity Facility by the Bank.

Days Bank Bonds held by Liquidity Provider	Base Rate (Defined)	Bank Bond Rate	Maximum Rate
0 – 30 Days	Higher of Prime +3%, Fed Funds + 5%	Base Rate	18%
31 – 90 Days	Higher of Prime +3%, Fed Funds +5%	Base Rate + 1%	18%
90 – 360 Days	Higher of Prime + 3%, Fed Funds +5% or 8% after 180 Days	Base Rate + 2%	18%
> 360 Days	Higher of Prime + 3%, Fed Funds + 5% or 8%	Base Rate + 4%	18%

The current expiration date of the amended agreements is December 31, 2015. The Bank has the option to terminate its commitment on December 31, 2012 and 2014 and July 15, 2015 by providing adequate notice of its intention. The bonds are not subject to mandatory tender for purchase as a result of immediate termination of the liquidity agreements. Failure by the State to purchase bonds tendered for purchase results in the bonds bearing interest at a floating rate indexed to unsecured commercial paper for 75 days continuing thereafter at an interest rate of 12%.

Component Units

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 Chase (2001B) and Bank of America, LLC (2001C). Effective September 23, 2008, J.P. Morgan Chase replaced Lehman Brothers, Inc.

The University entered into a line of credit agreement in the amount of $300 million with Wells Fargo Bank, N.A. ("the Bank") on September 21, 2006. Under the 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 the line of credit agreement, the University may request that the Bank increase the commitment by increments of $25 million for a total commitment of up to $400 million. A request for increase is subject to the Bank's sole discretion, and the University cannot be in default under the agreement at the time of the request.

The University is required to pay a quarterly facility fee for the line of credit in the amount of 0.08% 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 lowest rating in the below table shall apply:

S&P	Fitch	Moody's	Facility Fee
AA	AA	Aa2	0.10%
AA-	AA-	Aa3	0.11%
A+	A+	A1	0.14%
A	A	A2	0.18%

In the event that the Bank increases the available commitment prior to the due date for payment of a facility fee, upon request by the University as referenced in the prior paragraph, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the prime 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 the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the Trust Agreement for the original bonds. The University is required to begin making a series of ten fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of purchase. Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/10th of the original amount of the Commercial paper bonds for a period of up to 10 rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement 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, 2011, no purchase drawings had been made under the line of credit.

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 was issued by Wells Fargo Bank, N.A. and expired on October 15, 2006. The LOC 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, 2011, the LOC rate for the bonds was 1.2% and no amounts were drawn on it.

The Foundation paid Wells Fargo Bank, N.A. a commitment fee of $109 thousand for the letter of credit 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, 2011, the remarketed rate for the bonds was 0.08%.

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, 2011, 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 entire issue of $43.36 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.

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 Bank of America, 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 0.2% of the available commitment, payable quarterly in arrears, beginning on October 1, 2008 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 and federal funds rate plus 3%) for 30 days. For the period of 31 through 60 days after purchase, the Bank Bonds 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, 2011, there were no Bank Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on October 10, 2013, unless otherwise extended based on the terms of the Agreement.

After the purchase of the Bank Bonds, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semi-annual installments, beginning the first business day of the month which next occurs on or following 61 days after the purchase date along with accrued interest at the Bank Bond rate plus 2%. In the event the entire issue of $66.61 million of demand bonds was "put" and not resold, the University would be required to pay $24 million a year for three years under this agreement assuming a 5.25% interest rate.

University of North Carolina Hospitals at Chapel Hill

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, 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, Wells Fargo Bank, N.A. The Hospitals' Remarketing Agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (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-Thuringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the past fiscal year the percentage was 0.25% with the long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2014.

Under the Agreements, 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 formula rate (base rate equal to the higher of the prime rate for such day or the sum of 0.5% plus the federal funds rate) 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 due quarterly (the first business day of January, April, July and October) for each period in which Bank Bonds are outstanding. At June 30, 2011, 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 $98.2 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $21.36 million a year for five years under the installment loan agreement assuming an 3.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2014 by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of 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, Wells Fargo 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. was amended on June 9, 2010 and requires a facility fee equal to 0.58% of the available commitment for Series 2003A payable quarterly in arrears, beginning on August 1, 2010, and on each November 1, February 1, May 1, and August 1. On May 31, 2011, the facility fee was amended to be 0.51% per annum effective July 1, 2011 until July 1, 2013. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to parity debt assigned by Moody's and S&P is A1/A+ or higher. If the rating assigned to parity debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the commitment rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.71%
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 1.50% or the federal funds rate plus 3.0%, the base rate, for the first 90 days and then the base rate plus 0.50% from the 91st day to the 367th day following the date of purchase and the base rate plus 1.0% 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, 2011, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding $61.18 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $23.26 million, $22.44 million and $21.27 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 facility fee of 0.6% for fiscal year 2011. This agreement was amended on June 30, 2011 and the facility fee was set to 0.5% of the available commitment payable quarterly in arrears, beginning on November 1, 2011, and on each February 1, May 1, August 1, and November 1 thereafter until July 31, 2013. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to parity debt assigned 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:

S&P	Moody's	Commitment Rate
A	A2	0.65%
A-	A3	0.80%
BBB+	Baa1	1.00%
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 1.00%; the federal funds rate plus 2.0% or 7.00%, the base rate, plus 2% 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, 2011, 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 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 $32.88 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $11.03 million, $13.86 million and $12.72 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 12:00 noon on such purchase date. The Hospitals' Remarketing Agents, 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 or mandatory purchase date.

E. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). The debt service requirements of variable rate debt and net swap payments are based on rates as of June 30, 2011 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

Primary Government

	Governmental Activities					
Fiscal Year Ending June 30	General Obligation Bonds		Certificates of Participation		Lease-Purchase Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 375,705	$ 217,987	$ 48,550	$ 40,092	$ 10,000	$ 9,687
2013	387,295	199,058	49,395	37,889	10,000	9,220
2014	384,260	180,882	50,290	35,515	10,000	8,749
2015	387,560	162,984	51,245	33,089	10,000	8,257
2016	388,010	144,824	52,250	30,535	10,000	7,751
2017-2021	1,794,300	466,732	277,055	112,564	78,000	30,116
2022-2026	970,790	144,615	246,605	43,454	77,045	5,889
2027-2031	158,285	14,857	49,470	2,868	—	—
Total	$ 4,846,205	$ 1,531,939	$ 824,860	$ 336,006	$ 205,045	$ 79,669

	Governmental Activities					
Fiscal Year Ending June 30	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 33,005	$ 55,598	$ 40,535	$ 17,570	$ 5,147	$ 772
2013	38,995	49,371	42,375	15,786	4,926	636
2014	40,390	47,626	42,520	13,803	2,972	524
2015	41,880	45,780	34,290	11,816	3,041	426
2016	43,695	43,780	35,825	10,312	2,699	328
2017-2021	248,725	185,545	177,535	24,968	6,253	365
2022-2026	312,735	119,755	—	—	—	—
2027-2031	301,320	38,925	—	—	—	—
Total	$ 1,060,745	$ 586,380	$ 373,080	$ 94,255	$ 25,038	$ 3,051

The general obligation bonds include $355 million of variable rate. For this debt, the variable interest rates change on a weekly basis and are based on the rate paid by each bank. The banks base their rate on what they perceive to be the market (seven-day) for debt of this type given the credit standing of the unit of government.

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ending June 30	Business-type Activities Revenue Bonds Principal	Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest
2012	$ —	$ 47,946	$ 342	$ 160
2013	—	47,946	257	148
2014	—	47,946	261	137
2015	—	47,946	271	4,634
2016	—	47,946	282	10,305
2017-2021	47,044	236,408	1,292	57,208
2022-2026	159,195	212,774	3,280	56,933
2027-2031	241,928	161,106	19,852	54,060
2032-2036	223,993	176,261	46,056	48,770
2037-2041	184,518	69,919	103,534	35,819
2042-2046	—	—	93,603	7,059
Total	$ 856,678	$ 1,096,198	$ 269,030	$ 275,233

Component Units

	University of North Carolina System						
	Revenue Bonds			Certificates of Participation		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2012	$ 98,388	$ 122,453	$ 9,788	$ 2,230	$ 1,192	$ 82,889	$ 8,090
2013	102,264	119,526	9,522	2,335	1,086	49,907	5,572
2014	104,821	116,265	9,171	2,420	999	35,532	5,366
2015	106,549	112,749	8,922	585	903	20,442	6,410
2016	105,308	109,127	8,530	610	879	9,536	4,577
2017-2021	543,597	491,172	33,653	3,445	4,005	31,557	19,050
2022-2026	585,488	394,394	16,304	4,260	3,176	36,858	11,411
2027-2031	532,185	281,644	1,499	5,340	2,101	26,474	2,702
2032-2036	671,785	131,240	—	5,675	710	1,762	136
2037-2041	203,740	12,843	—	—	—	—	—
Total	$ 3,054,125	$ 1,891,413	$ 97,389	$ 26,900	$ 15,051	$ 294,957	$ 63,314

	North Carolina Housing Finance Agency			State Education Assistance Authority			
	Revenue Bonds			Revenue Bonds		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2012	$ 171,450	$ 56,404	$ 2,122	$ 90,401	$ 25,793	$ 151,000	$ 17,106
2013	38,990	55,285	2,077	106,945	24,880	151,000	15,169
2014	40,065	53,540	2,033	109,293	23,886	1,107,477	3,846
2015	41,720	51,689	1,991	111,368	22,816	—	—
2016	39,725	49,781	1,952	109,421	21,641	—	—
2017-2021	180,185	221,388	8,939	799,501	87,242	—	—
2022-2026	189,325	180,257	7,326	255,717	55,038	—	—
2027-2031	284,520	124,177	4,273	95,422	44,440	—	—
2032-2036	258,230	55,651	862	210,800	15,956	—	—
2037-2041	88,920	6,810	—	—	—	—	—
Total	$ 1,333,130	$ 854,982	$ 31,575	$ 1,888,868	$ 321,692	$ 1,409,477	$ 36,121

For revenue bonds of the University of North Carolina System, the fiscal year 2012 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

F. Bond Defeasances

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

Primary Government

On August 31, 2010, the State issued $472.6 million in General Obligation Refunding Bonds, Series 2010B with an average coupon interest rate of 5% and a true interest cost of 1.72%. The bonds are dated August 31, 2010, and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1 commencing December 1, 2010. The bonds will mature annually from June 1, 2011 to 2019 inclusive and are not subject to redemption prior to maturity. The proceeds of the Series 2010B Bonds were used to refund $499.87 million of variable General Obligation Refunding Bonds Series 2002B through 2002F, to provide for termination payments on two interest rate swaps and three standby bond purchase agreements associated with the Series 2002B through 2002F bonds, and to pay certain costs incurred in connection with the execution and delivery of the bonds. The current refunding was undertaken to reduce total debt service payments by $9.19 million over the next nine years and resulted in an economic gain of $6.2 million.

On October 12, 2010, the State issued $302.15 million in General Obligation Refunding Bonds, Series 2010C with an average coupon interest rate of 5% and with a true interest cost of 2.37%. The bonds are dated October 12, 2010, and bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1 commencing on May 1, 2011. The bonds will mature from May 1, 2018 to 2022 inclusive and are not subject to redemption prior to maturity. The proceeds of the Series 2010C Bonds were used to advance refund $30.4 million of General Obligation Highway Bonds, Series 2003 with an average coupon interest rate of 4.25%; $40 million of General Obligation Highway Bonds, Series 2004 with an average coupon interest rate of 4.25%; and $248.65 million of Public Improvement General Obligation Bonds, Series 2005A with an average coupon interest rate of 5%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The advance refunding was undertaken to reduce total debt service payments by $21.1 million over the next 12 years and resulted in an economic gain of $15.8 million. At June 30, 2011, the outstanding balance for the defeased bonds was $319.05 million.

Component Units

State Education Assistance Authority

During the year ended June 30, 2011, the Authority issued $438 million in 2010-1 Series Taxable Student Loan Backed Notes with an initial interest rate of 1.21%, $445 million in 2011-1 Series Taxable Student Loan Backed Notes with an initial average interest rate of 1.18%, and $516 million in 2011-2 Series Taxable Student Loan Backed Notes with an initial average interest rate of 0.99%. The refunding component of these issues was used for a current refunding of $1.37 billion of outstanding Taxable and Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 1.98%. The current refunding was undertaken to reduce total debt service payments by $317.9 million over the next 21 years and resulted in an economic gain of $277.26 million.

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 assets. At June 30, 2011, the outstanding balance of prior year defeased bonds was $353 million for the primary government and $78.58 million for the University of North Carolina System (component unit).

G. Bond Redemptions

The bond series resolutions for the North Carolina Housing Finance Agency provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Various bond issues are redeemable at the option of the Agency. Currently, no outstanding bonds have any prepayment premiums.

H. Federal Unemployment Account Advances

During fiscal year 2011, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of $1.43 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 used to pay down the principal on the repayable advances was $1.04 billion. At year-end, the outstanding balance of the FUA advances was $2.536 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 solely from the unemployment tax contributions and these contributions 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.

I. 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 34 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 $6.864 million, of which $5.901 million was for leaking underground fuel tanks at DOT and $963 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 Units

University of North Carolina System

Fayetteville State University recognized a pollution remediation liability of $55 thousand for the voluntary commencement of asbestos removal and underground storage tank removal at a campus building. The amount of the liability was derived from the estimated costs of the abatements and removals.

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, 2011, total operating lease expenditures were $77.21 million for Primary Government, $66.9 million for the University of North Carolina System, and $7.26 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, 2011 are as follows (dollars in thousands):

	Operating Leases			Capital Leases		
		Component Units			Component Units	
Fiscal Year	Primary Government	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2012	$ 53,812	$ 37,881	$ 5,743	$ 2,741	$ 22,141	$ 2,689
2013	37,789	28,436	4,453	2,733	16,463	2,667
2014	27,296	19,211	3,468	2,014	15,997	2,354
2015	21,442	16,632	2,539	1,959	15,210	2,316
2016	19,090	14,066	1,895	1,965	13,680	2,200
2017 - 2021	27,616	57,192	7,182	9,580	72,183	11,001
2022 - 2026	8,082	34,955	2,619	7,650	76,346	11,001
2027 - 2031	8,082	15,415	1,368	—	76,621	8,617
2032 - 2036	8,082	81	145	—	81,839	—
2037 - 2041	8,082	63	—	—	22,714	—
2042 - 2046	8,082	24	—	—	—	—
2047 - 2051	8,082	24	—	—	—	—
2052 - 2056	1,616	24	—	—	—	—
2057 - 2061	—	24	—	—	—	—
Total Future Minimum Lease Payments..........	$ 237,153	$224,028	$ 29,412	28,642	413,194	42,845
Less: Amounts Representing Interest				(5,973)	(173,819)	(18,725)
Present Value of Future Minimum Lease Payments				$ 22,669	$ 239,375	$ 24,120

At June 30, 2011, 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..	$ 26,051	$ 243,482	$ 27,338
Machinery and Equipment......................	3,160	21,681	865
Other...	—	2,744	—
Total Capital Assets...............................	$ 29,211	$ 267,907	$ 28,203

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

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NOTE 10: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $67.461 million due to fiduciary funds is composed of $20.678 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as $46.783 million related to retirement contributions payable to retirement systems at year end.

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 assets.

Due To/From Other Funds

Balances due to/from other funds at June 30, 2011, consisted of the following (dollars in thousands):

	Due From Other Funds					
	General Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	Total
Due To Other Funds						
General Fund	$ —	$ —	$ 5,032	$ —	$ 16,654	$ 21,686
Highway Fund	—	—	1,115	—	2,920	4,035
Other Governmental Funds	80	—	29	7,048	1,447	8,604
Unemployment Compensation Fund	—	—	3,080	—	—	3,080
EPA Revolving Loan Fund	—	—	—	—	21	21
NC State Lottery Fund	7,398	—	—	—	72	7,470
NC Turnpike Authority	—	228	—	—	—	228
Nonmajor Enterprise Funds	—	—	—	—	76	76
Internal Service Funds	—	—	—	—	765	765
Total	$ 7,478	$ 228	$ 9,256	$ 7,048	$ 21,955	$ 45,965

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 assets, 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 $21.011 million to the North Carolina Turnpike Authority from the Highway Trust Fund is related to startup operating costs.

B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2011 consisted of the following (dollars in thousands):

	Transfers In							
Transfers Out	General Fund	Highway Fund	Other Governmental Funds	EPA Revolving Loan Fund	NC Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	Total
General Fund	$ —	$ 3,895	$ 41,180	$ 12,600	$ —	$ 1,546	$ 1,863	$ 61,084
Highway Fund	275,905	—	4,846	—	19,315	—	—	300,066
Highway Trust Fund	73,256	32,891	2,361	—	49,838	—	—	158,346
Other Governmental Funds	162,516	477	14,822	932	—	—	76	178,823
Unemployment Compensation Fund	—	—	11,816	—	—	—	—	11,816
EPA Revolving Loan Fund	453	—	—	—	—	—	—	453
NC State Lottery Fund	436,241	—	1,000	—	—	—	54	437,295
Other Enterprise Funds	3,711	—	2,378	—	—	—	—	6,089
Internal Service Funds	63,820	—	—	—	—	—	12,612	76,432
Total	$1,015,902	$ 37,263	$ 78,403	$ 13,532	$ 69,153	$ 1,546	$ 14,605	$ 1,230,404

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 $72.895 million.

House Bill 2436 [Session Law 2008-107], amends the law that created the Highway Trust Fund. The amendment decreased the amount directed to be transferred to the General Fund by $99 million, phased in over a three year period, beginning in fiscal year 2008-09. The amendment further directs that these 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, Monroe Connector/Bypass, Mid-Currituck Bridge, and Garden Parkway. As of June 30, 2011 debt had been issued for the Triangle Expressway and the Monroe Connector/Bypass, and $49 million was transferred to the NCTA.

In compliance with the North Carolina State Lottery Act, House Bill 1023 [Session Law 2005], all "Net Revenues" of the NC 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 $436.241 million, as set forth in General Statute 18C-164.

NOTE 11: FUND BALANCE

Fund Balance. The details of the fund balance classifications for governmental funds at June 30, 2011 are as follows (dollars in thousands):

	Governmental Funds				
Fund Balance	*General Fund*	*Highway Fund*	*Highway Trust Fund*	*Other Governmental Funds*	*Total Governmental Funds*
Nonspendable:					
Inventories	$ 93,259	$ 87,000	$ —	$ 27,465	$ 207,724
Permanent Corpus	—	—	—	84,588	84,588
Restricted for:					
General government	6,237	—	—	78,126	84,363
Primary and secondary education	15,009	—	—	—	15,009
Higher education	3,078	—	—	583,505	586,583
Health and human services	15,269	—	—	104,327	119,596
Economic development	23,244	—	—	34,998	58,242
Environment and natural resources	—	—	—	68,317	68,317
Public safety, corrections, and regulation	9,195	—	—	29,675	38,870
Transportation	—	3,167	—	—	3,167
Agriculture	—	—	—	3,262	3,262
Committed to:					
General government	137,029	—	—	104,002	241,031
Primary and secondary education	301,332	—	—	9,290	310,622
Higher education	27,165	—	—	262	27,427
Health and human services	234,024	—	—	14,694	248,718
Economic development	98,284	—	—	419	98,703
Environment and natural resources	153,350	—	—	366,848	520,198
Public safety, corrections, and regulation	30,000	—	—	81,466	111,466
Transportation	—	557,795	186,866	4,395	749,056
Agriculture	9,472	—	—	17,808	27,280
Repairs and renovations	124,500	—	—	—	124,500
Unassigned	(96,742)	—	—	(1,627)	(98,369)
Total fund balance	$ 1,183,705	$ 647,962	$ 186,866	$ 1,611,820	$ 3,630,353

NOTE 12: RETIREMENT PLANS

The State reports 10 retirement plans as pension trust funds. Section A of this note describes the eight 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, 2011, the number of participating employers was 246 as shown below:

State of North Carolina	1
LEAs and miscellaneous units	165
Community Colleges	58
University of North Carolina System	19
Proprietary component units	3

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, 2011, the State made a statutory contribution of 4.93% of covered payroll. This was less than the actuarially required contribution of 6.71%. 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, 2011, the State made a statutory contribution of 15.11% of covered payroll. This was less than the actuarially required contribution of 19.25%. 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.

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, 2011, 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, 2011, there were 1,935 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, 2011, there were 84 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. 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, 2011, there were 91 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, 2011, the Clerks remitted $1.156 million. 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, 2011, the number of participating local governments was 890, as shown below:

Cities	419
Counties	100
Special districts	371

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 6.82% of covered payroll for law enforcement officers and 6.35% 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.

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

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard	Registers of Deeds'	Local Govern-mental
Employee Groups							
Retirees and beneficiaries currently receiving benefits	163,938	543	258	11,298	3,889	83	49,204
Terminated employees entitled to benefits but not yet receiving them	102,149	48	77	121	4,957	1	41,077
Active plan members	324,683	566	169	38,484	5,688	100	122,582
Total	590,770	1,157	504	49,903	14,534	184	212,863
Date of valuation	*12-31-10*	*12-31-10*	*12-31-10*	*6-30-10*	*12-31-10*	*12-31-10*	*12-31-10*

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 assets of the various portfolios within the pool. Detailed descriptions of how the fair value is determined in the various portfolios are presented 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, 2010 (June 30, 2010, 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.

							Actuarial Assumptions	
Retirement System	*Valuation Date*	*Actuarial Cost Method*	*Amortization Method*	*Remaining Amortization Period*	*Period Open/Closed*	*Asset Valuation Method*	*Investment Rate of Return*	*Projected Salary Increase*
Teachers' and State Employees'	12/31/10	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
Consolidated Judicial	12/31/10	Projected unit credit	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
Legislative	12/31/10	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/10	Entry age	Level dollar	9 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
North Carolina National Guard	12/31/10	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
Registers of Deeds'	12/31/10	Entry age	Level dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
Local Governmental Employees'	12/31/10	Frozen entry age	Level percentage	Various	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%

N/A-Not applicable

Only minor technical adjustments for the respective systems were adopted and enacted by the North Carolina General Assembly effective July 1, 2010. No cost of living increases were adopted for any of the systems.

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 3.50% 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, 2011, 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, 2008, the Legislative system was valued at December 31, 2009, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2009. These valuations used amortization periods of eight years for Legislative and nine years for all the other systems. Registers of Deeds' was valued at December 31, 2008, 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.

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):

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution	$ 13,082	$ —	$ 12,243	$ 5,719
Interest on net pension obligation	(191)	(12)	31	(126)
Adjustment to annual required contribution	439	27	(69)	289
Annual pension cost	13,330	15	12,205	5,882
Less: Contributions made	10,268	—	10,110	7,007
Increase (decrease) in net pension obligation	3,062	15	2,095	(1,125)
Net pension (asset) obligation beginning of year	(2,634)	(151)	429	(1,736)
Net pension (asset) obligation end of year	$ 428	$ (136)	$ 2,524	$ (2,861)

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, 2009 through June 30, 2011 (dollars in thousands)

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard
Primary Government:					
2011	$ 165,721	$ 13,330	$ 15	$ 12,205	$ 5,882
2010	120,935	10,405	32	10,035	5,716
2009	127,152	8,510	38	9,714	6,316
Component units:					
Universities:					
2011	$ 95,125				
2010	66,935				
2009	54,869				
Community Colleges:					
2011	$ 40,001				
2010	27,444				
2009	26,092				
Proprietary Funds:					
2011	$ 998				
2010	722				
2009	715				
Total Primary Government and Component Units:					
2011	$ 301,845	$ 13,330	$ 15	$ 12,205	$ 5,882
2010	216,036	10,405	32	10,035	5,716
2009	208,828	8,510	38	9,714	6,316
Percentage of APC Contributed:					
2011		77%	0%	83%	119%
2010		99%	0%	100%	123%
2009		104%	0%	100%	93%
Percentage of ARC Contributed:					
2011	100%				
2010	100%				
2009	100%				
Net Pension (Asset) Obligation:					
2011		$ 428	$ (136)	$ 2,524	$ (2,861)
2010		(2,634)	(151)	429	(1,736)
2009		(2,791)	(183)	474	(444)

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).

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-10	$ 57,102,198	$ 59,876,066	$ 2,773,868	95.4%	$ 13,053,831	21.3%
Consolidated Judicial	12-31-10	$ 451,196	$ 492,606	$ 41,410	91.6%	$ 66,605	62.2%
Legislative	12-31-10	$ 29,835	$ 23,752	$ (6,083)	125.6%	$ 3,668	(165.8)%
Firemen's and Rescue Squad Workers'	6-30-10	$ 318,273	$ 370,236	$ 51,963	86.0%	N/A	N/A
North Carolina National Guard	12-31-10	$ 86,559	$ 127,066	$ 40,507	68.1%	N/A	N/A
Registers of Deeds'	12-31-10	$ 40,529	$ 22,104	$ (18,425)	183.4%	$ 5,926	(310.9)%
Local Governmental Employees'	12-31-10	$ 18,570,514	$ 18,646,430	$ 75,916	99.6%	$ 5,113,742	1.5%

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, 2011, the Plan had 13,512 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 $92.8 million for the fiscal year ended June 30, 2011. 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 $81.4 million for the fiscal year ended June 30, 2011.

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), an agent multiple-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 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, 2011, the State and its component units paid $13.3 million for 866 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each affected state agency or paid from the component unit's operations. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

NOTE 13: DEFERRED COMPENSATION PLANS

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 457 Plan is reported as a pension and other employee benefit trust fund and also discloses a related party transaction in Note 21 of this CAFR. 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, 2010, 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. Investments are reported at fair value. Securities and mutual funds are based on published quotations while bank investment contracts are stated at contract value. 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, 2010, 52 state agencies and component units along with 464 local governmental units outside our reporting entity contributed the required 5%. In addition, four state agencies and 439 local government employers contributed to the 401(k) Plan on a voluntary basis.

The 401(k) Plan also reported total member contributions of $275.967 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2010, amounted to $175.9 million for the State, $16.9 million for universities, and $3.4 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for $8.8 million, by universities for $845 thousand, and by the remaining component units and community colleges for \$169 thousand. In addition, the State contributed \$469 thousand for required court cost assessments.

The 401(k) Plan and 457 Plan (Supplemental Plans) disclose a related party transaction in Note 21 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 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.

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 *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. Investments are reported at fair value, which is based on quoted market prices. The investment balance of the Disability Income Plan represents its share of the fair value of the net assets of the various portfolios within the pool. 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, 2011, the number of participating employers was 260 as shown below:

State of North Carolina	1
LEAs and miscellaneous units	165
Community Colleges	58
University of North Carolina System	19
Proprietary component units	3
Local governments	14

The Plan is reported as a major component unit. It is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. Plan benefits received by retired employees and disabled employees are other post employment 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 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 Heath Plan's total noncontributory premium. There is no impact of this legislation in the current fiscal year.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3A 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 4.9% 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.

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. 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.

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, 2011, the State and the other employers made a statutory contribution of .52% of covered payroll. This was greater than the actuarially required contribution of .46%. 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.

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the three year trend of the contractually required contributions for the Retiree Health Benefit Plan and the annual required contributions (ARC) for the Disability Income Plan for the State and its component units made to the plans 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, 2009 through June 30, 2011
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2011	$ 164,713	$ 17,480
2010	152,440	17,615
2009	155,156	19,678
Component units:		
Universities:		
2011	$ 159,564	$ 16,933
2010	140,450	16,230
2009	120,128	15,236
Community Colleges:		
2011	$ 39,757	$ 4,219
2010	34,593	3,997
2009	31,838	4,038
Proprietary Funds:		
2011	$ 992	$ 105
2010	910	105
2009	873	111
Total Primary Government and Component Units:		
2011	$ 365,026	$ 38,737
2010	328,393	37,947
2009	307,995	39,063
Percentage Contributed:		
2011	100%	100%
2010	100%	100%
2009	100%	100%

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

	Retiree Health Benefit	Disability Income
Employee Groups		
Retirees and beneficiaries currently receiving benefits	168,955	n/a
Disabled members receiving long term disability benefits	n/a	6,480
Terminated employees entitled to benefits but not yet receiving them	34,609	-
Active plan members	347,042	331,251
Total	550,606	337,731
Date of valuation	*12/31/10*	*12/31/10*

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
Retiree Health (1)	12/31/10	$ 655,445	$ 33,494,641	$ 32,839,196	2.0%	$ 15,098,336	217.5%
Disability Income (2)	12/31/10	$ 377,995	$ 498,506	$ 120,511	75.8%	$ 14,360,373	0.8%

(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. Aon Consulting 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 values of plan assets are increasing or decreasing over time in relation to the actuarial accrued liabilities.

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, 2010. The latest actuarial valuation for DIPNC is dated December 31, 2010. 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 values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities 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 experience study prepared as of December 31, 2009 and adopted beginning with the December 31, 2009 pension valuation. The discount rate used for Retiree Health reflects a pay-as-you-go approach.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

	Retiree Health Benefit	Disability Income
Valuation Date	12/31/10	12/31/10
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent of pay
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value of Assets	5 year smoothed with 80%/120% corridor
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	5.75%
Healthcare Cost Trend Rate (2) (3)	9% initial 5% ultimate	N/A
Projected Salary Increases (4) (5)	N/A	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 and healthcare cost trend rate includes an inflation and productivity rate of 3.50%. For the DIPNC, the investment rate of return includes only inflation of 3.00%.

(3) For the Retiree Health Benefit, trend rates apply to both Medicare eligible and pre-Medicare-eligible members.

(4) For the Retiree Health Benefit, Aon Consulting used the projected unit credit method which does not include salaries, thus salary increases are not applicable for FY2011.

(5) For the DIPNC, the projected salary increases include an inflation and productivity rate of 3.50%.

N/A Not Applicable

NOTE 15: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

Public School Insurance Fund

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 90 out of 115 LEAs and 29 out of 58 community colleges.

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

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

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

	Fiscal Year	
	2011	2010
Unpaid claims at beginning of year ...	$ 530	$ 457
Incurred claims:		
Provision for insured events of the current year	20,340	1,030
Increases (decreases) in provision for insured events of prior years	56	(181)
Total incurred claims	20,396	849
Payments:		
Claims attributable to insured events of the current year	5,505	373
Claims attributable to insured events of the prior years	382	403
Total payments	5,887	776
Total unpaid claims at end of the year	$ 15,039	$ 530

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.

B. Employee Benefit Plans

1. State Health Plan

In accordance with Chapter 135, Article 3A, Part 3, 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. 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 amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the Preferred Provider Organization (PPO) plans. The authority for the PPO plans is provided in General Statute 135-45.

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
2009-10	$ 258,150	$ 2,381,897	$ (2,386,718)	$ 253,329
2010-11	253,329	2,449,828	(2,478,940)	224,217

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, 2010 to June 30, 2011, 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 2010 to June 2011.

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
2009-10	$ 3,260	$ 42,040	$ (41,861)	$ 3,439
2010-11	3,439	43,267	(42,320)	4,386

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. 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
2009-10	$ 2,090	$ 492	$ (805)	$ 1,777
2010-11	1,777	74	(367)	1,484

2. Medical Malpractice Protection

a. *Professional Liability Insurance for State Medical Personnel*

All agencies of the State and participating component units are insured for tort claims up to $1 million under the authority of the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. Organizations within the reporting entity carry excess commercial liability insurance to supplement the coverage provided by the State Tort Claims 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 Physicans. 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 Correction 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 Correction 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. Many departments and institutions maintain excess policies 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 Physicians and Associates (UNC P&A). 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, 2010 and June 30, 2011, 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, 2010 and June 30, 2011, 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, 2011, the Trust Fund purchased a direct insurance policy to cover the first $1 million per occurrence and $3 million annual aggregate limits of coverage. 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 $48.292 million and $51.367 million are the present values of the aggregate actuarially determined claims liabilities of $47.466 million and $49.741 million, discounted at 2.5% at June 30, 2010 and 2.0% at June 30, 2011. 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
2009-10	$ 45,215	$ 8,083	$ (5,006)	$ 48,292
2010-11	48,292	11,425	(8,350)	51,367

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 400 weeks at 66 2/3% of an employee's average weekly salary. In certain instances, death benefits may be extended beyond the 400 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 except for the Department of Transportation. 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.

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. The Department of Transportation is the only state agency that sets up a reserve for claims. For the year ended June 30, 2011, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	$ 105,921
University of North Carolina System	12,070
All other component units	77
Total	$ 118,068

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, 2011 was $1.55 million. As of June 30, 2011, the Fund consisted of 1,226 eligible units representing approximately 45,844 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, 2011, 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, 2011, there are claims recoverable from reinsurers in the amount of $478.

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
2009-10	$ 15,246	$ 6,198	$ (5,801)	$ 15,643
2010-11	15,643	10,621	(8,151)	18,113

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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, 2011 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2011

(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
Assets						
Cash and cash equivalents	$ 95,523	$ 613	$ 74	$ 684	$ 1,519	$ 38,586
Investments:						
Mutual funds	—	—	—	—	—	—
Unallocated insurance contracts	—	—	—	—	—	—
Synthetic guaranteed investment contracts	—	—	—	—	—	—
State Treasurer investment pool	55,631,628	440,308	28,791	322,633	84,793	18,433,444
Non-State Treasurer pooled investments	—	—	—	—	—	—
Securities lending collateral	1,838,845	14,536	957	10,681	2,907	608,545
Receivables:						
Accounts receivable	5,931	14	—	36	7	4,157
Interest receivable	248	2	—	2	2	66
Contributions receivable	55,263	—	21	—	—	41,890
Due from other funds	29,984	1,206	—	—	—	—
Due from component units	7,866	—	—	—	—	—
Notes receivable	—	—	—	—	—	—
Total Assets	57,665,288	456,679	29,843	334,036	89,228	19,126,688
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable	—	—	—	—	—	—
Benefits payable	6,760	64	10	—	5	626
Obligations under securities lending	1,898,168	15,007	984	11,023	3,015	629,995
Total Liabilities	1,904,928	15,071	994	11,023	3,020	630,621
Net Assets						
Held in trust for:						
Employees' pension and other benefits	55,760,360	441,608	28,849	323,013	86,208	18,496,067
Total Net Assets	$ 55,760,360	$ 441,608	$ 28,849	$ 323,013	$ 86,208	$ 18,496,067

401(k) Supplemental Retirement Income Plan	Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	*Totals*
$ —	$ —	$ 5,747	$ 711,497	$ 9,233	$ 1,565	$ 65	$ 865,106
89,649	32,468	—	—	—	—	—	122,117
616,478	133,115	—	—	—	—	—	749,593
978,217	210,476	—	—	—	—	—	1,188,693
—	—	360,440	—	362,077	—	41,719	75,705,833
3,514,074	427,474	—	—	—	—	—	3,941,548
136,404	—	32,366	60,198	32,885	135	3,706	2,742,165
276	49	40	2,344	14,926	—	—	27,780
—	84	5	606	10	2	—	1,027
5,862	—	1,085	26,355	2,776	—	65	133,317
—	—	439	13,727	1,427	—	—	46,783
—	—	115	7,519	798	—	—	16,298
230,221	11,679	—	—	—	—	—	241,900
5,571,181	815,345	400,237	822,246	424,132	1,702	45,555	85,782,160
293	64	128	—	—	—	—	485
—	—	4,386	54,961	245	—	—	67,057
136,404	—	33,729	63,326	34,191	139	3,851	2,829,832
136,697	64	38,243	118,287	34,436	139	3,851	2,897,374
5,434,484	815,281	361,994	703,959	389,696	1,563	41,704	82,884,786
$ 5,434,484	$ 815,281	$ 361,994	$ 703,959	$ 389,696	$ 1,563	$ 41,704	$82,884,786

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2011
(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
Additions:						
Contributions:						
Employer	$ 680,670	$ 10,457	$ —	$ —	$ —	$ 361,998
Members	843,601	4,636	282	2,757	—	336,056
Other contributions	—	—	—	10,110	7,007	—
Total contributions	1,524,271	15,093	282	12,867	7,007	698,054
Investment Income:						
Investment earnings	9,121,229	72,441	4,812	52,764	13,623	2,980,524
Less investment expenses	(217,698)	(1,727)	(114)	(1,260)	(328)	(71,481)
Net investment income	8,903,531	70,714	4,698	51,504	13,295	2,909,043
Other additions:						
Fees, licenses and fines	—	—	—	—	—	4,160
Interest earnings on loans	—	—	—	—	—	—
Miscellaneous	3,982	—	—	6	—	73
Total other additions	3,982	—	—	6	—	4,233
Total additions	10,431,784	85,807	4,980	64,377	20,302	3,611,330
Deductions:						
Claims and benefits	3,348,854	31,576	2,010	23,397	6,815	861,534
Medical insurance premiums	—	—	—	—	—	—
Refund of contributions	86,028	73	74	410	—	44,831
Administrative expenses	10,369	27	9	844	59	4,282
Other deductions	9	—	—	—	—	1
Total deductions	3,445,260	31,676	2,093	24,651	6,874	910,648
Change in net assets	6,986,524	54,131	2,887	39,726	13,428	2,700,682
Net assets — July 1	48,773,836	387,477	25,962	283,287	72,780	15,795,385
Net assets — June 30	$ 55,760,360	$ 441,608	$ 28,849	$ 323,013	$ 86,208	$ 18,496,067

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	Totals
$ 155,874	$ —	$ 26,508	$ 743,659	$ 78,259	$ 1,156	$ 772	$ 2,059,353
275,967	49,686	—	—	—	—	—	1,512,985
—	—	20,090	—	—	—	—	37,207
431,841	49,686	46,598	743,659	78,259	1,156	772	3,609,545
620,594	91,522	18,660	7,427	18,966	24	2,186	13,004,772
—	—	(112)	(208)	(115)	(1)	(13)	(293,057)
620,594	91,522	18,548	7,219	18,851	23	2,173	12,711,715
—	—	—	—	—	—	—	4,160
11,501	523	—	—	—	—	—	12,024
—	—	—	—	—	—	—	4,061
11,501	523	—	—	—	—	—	20,245
1,063,936	141,731	65,146	750,878	97,110	1,179	2,945	16,341,505
234,605	37,908	43,267	—	76,134	1,280	1,470	4,668,850
—	—	405	652,627	—	—	—	653,032
—	—	—	—	—	—	—	131,416
2,068	462	601	328	729	119	14	19,911
—	—	—	—	—	—	—	10
236,673	38,370	44,273	652,955	76,863	1,399	1,484	5,473,219
827,263	103,361	20,873	97,923	20,247	(220)	1,461	10,868,286
4,607,221	711,920	341,121	606,036	369,449	1,783	40,243	72,016,500
$ 5,434,484	$ 815,281	$ 361,994	$ 703,959	$ 389,696	$ 1,563	$ 41,704	$ 82,884,786

NOTE 17: SEGMENT INFORMATION

Component Unit. The North Carolina Housing Finance Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with revenue bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt.

Condensed financial statements for the two segments of the North Carolina Housing Finance Agency as of and for the fiscal year ended June 30, 2011 are presented below (dollars in thousands).

	N.C. Housing Finance Agency	
	Home Ownership	Rental
Condensed Statement of Net Assets		
Assets:		
Current assets	$ 405,839	$ 16,194
Noncurrent assets	1,211,660	12,595
Total assets	1,617,499	28,789
Liabilities:		
Current liabilities	200,744	803
Noncurrent liabilities	1,162,849	10,450
Total liabilities	1,363,593	11,253
Net assets:		
Restricted	253,906	17,536
Total net assets	$ 253,906	$ 17,536
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds)	$ 81,355	$ 852
Operating expenses	(71,604)	(574)
Operating income	9,751	278
Transfers in	7,135	—
Transfers out	—	(9,695)
Change in net assets	16,886	(9,417)
Net assets — July 1	237,020	26,953
Net assets — June 30	$ 253,906	$ 17,536
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 160,708	$ 1,104
Noncapital financing activities	(195,938)	(10,447)
Investing activities	1,541	2,369
Net increase (decrease)	(33,689)	(6,974)
Cash and cash equivalents at July 1	145,011	20,558
Cash and cash equivalents at June 30	$ 111,322	$ 13,584

NOTE 18: PLEDGED REVENUES

Primary Government

Governmental Activities

The State has pledged future federal transportation revenues to repay $373.08 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2011. These bonds were issued in October 2007 and August 2009. 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 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 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 $467.335 million, payable through 2021. For the current fiscal year, principal and interest paid and total federal transportation revenues were $81.827 million and $1.372 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). 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.

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 will be used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System, a 19-mile toll road facility to be built in Durham and Wake counties. Additionally, proceeds from the bonds will be 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 $1.953 billion, payable through 2041 (final maturity date). For the current fiscal year, interest paid, available revenues (federal interest subsidy and investment revenues), and state appropriations (transfers in) were $37.869 million, $16.078 million, and $49 million, respectively. The first principal payment is due in 2017

Unemployment Compensation Fund

The State has pledged future unemployment tax contributions from employers to repay $2.536 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.

The repayable advances are payable solely from the unemployment tax contributions and these contributions will be used specifically for paying down the debt until it is settled. Meanwhile, the unemployment benefits will continue to be paid from the repayable advances.

Total revenue collected from unemployment tax contributions for the year was $1.219 billion. Employer tax contributions were used to pay down the principal on the repayable advances in the amount of $1.044 billion.

NOTES TO THE FINANCIAL STATEMENTS

Component Units

University of North Carolina System

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

		Future Revenues Pledged		Current Year			
Purpose	Revenue Source	Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments	Final Maturity Date	Bonds Payable as of 6/30/2011
Revenue Bonds		(1)					
Housing and Dining	Housing and Dining revenues	$ 64,422	0.61% - 74.00%	$ 57,315	$ 6,624	2034	$ 49,100
Housing, Parking and Football	Federal Interest Subsidy Revenues (2)	35,545	100.00%	1,560	4,075	2039	90,370
Utilities	Utilities Revenues	85,327	6.00% - 17.00%	46,108	4,471	2024	64,188
Health Care Facilities	Patient Service Revenues	234,843	21.00% - 100.00%	42,077	3,224	2033	151,720
Other	Various	12,444	20.00% - 87.00%	13,831	3,252	2019	10,485
Total		$ 432,581		$ 160,891	$ 21,646		$ 365,863
Certificates of Participation							
Student Housing System	Housing Revenues	$ 36,154	76.00%	$ 1,967	$ 1,488	2036	$ 21,545
Banner System	Tuition and Administrative Fees	2,376	62.00%	1,284	792	2014	2,195
Total		$ 38,530		$ 3,251	$ 2,280		$ 23,740
Note Payable							
Student Housing System	Housing Revenues and	$ 31,612	40.00%	$ -	$ -	2014	$ 31,000
	Federal Interest Subsidy Revenues (2)	329	100.00%	119	341	-	-
Total		$ 31,941		$ 119	$ 341		$ 31,000

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

(2) Federal Interest Subsidy on Debt revenue is pledged to pay 35% of the interest incurred on the Build America Bonds. The amount pledged does not include any principal payments.

North Carolina Housing Finance Agency

The North Carolina Housing Finance Agency (Agency) has collateralized $1.26 billion in mortgage loans receivable, $128.34 million in reserves, to repay $1.333 billion single family and multiple family bonds payable at June 30, 2011. Proceeds from the bonds issued were utilized to finance housing opportunities throughout North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest; to pay the principal and interest debt service on the bonds. The total principal and interest remaining to be paid on bonds is $2.188 billion. For the current fiscal year, principal and interest paid and net available revenue on mortgage loans receivable were $103.258 million and $72.134 million, respectively.

State Education Assistance Authority

The State Education Assistance Authority has collateralized $3.31 billion in student loans receivable and $33.47 million in reserves to repay $3.298 billion of bonds and conduit notes at June 30, 2011. These tax exempt, tax guaranteed student loan revenue bonds, tax exempt guaranteed student revenue and refunding bonds and Conduit Funding Notes were issued between fiscal years 2006 to 2011. Proceeds from the bonds issued were utilized to finance student loans. The bonds and notes are payable through 2033 and are paid down from cash collections on student loans receivable, interest earnings on loans and investments, and unexpended bond proceeds. In addition to cash collections on student loans receivable, all net available revenues are expected to be pledged to meet annual principal and interest payments on the bonds. For the current fiscal year, principal and interest paid and total net available revenues were $537.859 million and $351.941 million respectively. The total principal and interest remaining to be paid on the bonds and notes payable is $3.656 billion.

NOTE 19: 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, 2011 are presented below (dollars in thousands).

Statement of Net Assets

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Other Component Units	Total
Assets								
Cash and cash equivalents	$ 493	$ 1,818,832	$ 229,608	$ 3,999	$ 49,466	$ 269,946	$ 180,435	$ 2,552,779
Investments	793,007	1,059,456	63,064	2,044	—	—	128,949	2,046,520
Receivables, net	1	920,793	81,836	24,537	76,224	61,261	12,953	1,177,605
Due from component units	—	5,958	3,289	—	2,080	—	1,235	12,562
Due from primary government	—	4,390	—	54,470	9,833	—	—	68,693
Inventories	—	80,940	19,066	—	—	—	627	100,633
Prepaid items	85	50,878	2,962	—	—	—	1,902	55,827
Notes receivable, net	—	231,069	1,071	1,347,572	3,399,912	—	11,662	4,991,286
Investment in joint venture	—	21,609	—	—	—	—	—	21,609
Deferred charges	—	16,872	—	12,382	16,597	—	1,112	46,963
Restricted/designated cash							—	
and cash equiv.	—	1,394,486	86,786	261,632	190,783	—	59,161	1,992,848
Restricted investments	—	3,772,007	154,324	227,923	943,182	—	762	5,098,198
Restricted due from primary							—	
government	—	2,666	26,353	—	—	—	—	29,019
Restricted due from component units	—	—	1,351	—	—	—	—	1,351
Deferred outflow of resources	—	41,231	—	5,058	—	—	229	46,518
Capital assets-nondepreciable	904	1,569,380	295,486	382	—	—	116,496	1,982,648
Capital assets-depreciable, net	2,996	8,975,496	2,024,803	3,214	6,044	48	555,538	11,568,139
Total Assets	797,486	19,966,063	2,989,999	1,943,213	4,694,121	331,255	1,071,061	31,793,198
Liabilities								
Accounts payable and								
accrued liabilities	77,471	705,969	59,908	2,974	24,678	26,191	22,273	919,464
Medical claims payable	—	—	—	—	—	224,217	—	224,217
Interest payable	—	34,609	22	29,274	4,683	—	983	69,571
Short-term debt	—	83,790	—	—	—	—	400	84,190
Due to component units	13,913	—	—	—	—	—	—	13,913
Due to primary government	1,532	566	37	—	—	6	1,457	3,598
Unearned revenue	—	177,356	24,077	24,982	—	11,126	18,456	255,997
Advance from primary government	—	—	—	—	—	—	21,742	21,742
Deposits payable	—	8,024	—	3,420	—	—	27	11,471
Funds held for others	—	857,987	6,935	—	822,116	—	3,629	1,690,667
Hedging derivatives liability	—	41,231	—	5,058	—	—	229	46,518
Long-term liabilities:							—	
Due within one year	12	339,422	10,706	171,938	241,417	2,640	3,573	769,708
Due in more than one year	23	4,159,064	101,819	1,169,131	3,020,168	737	109,460	8,560,402
Total Liabilities	92,951	6,408,018	203,504	1,406,777	4,113,062	264,917	182,229	12,671,458
Net Assets								
Invested in capital assets, net								
of related debt	3,900	6,765,020	2,281,562	3,596	6,044	48	539,011	9,599,181
Restricted for:								
Nonexpendable:								
Higher education	—	1,701,054	148,237	—	—	—	—	1,849,291
Expendable:								
Higher education	—	2,140,368	188,855	—	516,080	—	—	2,845,303
Health and human services	—	—	—	—	—	—	1,067	1,067
Economic development	—	—	—	522,565	—	—	234,671	757,236
Unrestricted	700,635	2,951,603	167,841	10,275	58,935	66,290	114,083	4,069,662
Total Net Assets	$ 704,535	$ 13,558,045	$ 2,786,495	$ 536,436	$ 581,059	$ 66,338	$ 888,832	$ 19,121,740

Statement of Activities

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Other Component Units	Total
Total expenses	$ 45,527	$ 9,150,137	$ 2,194,155	$ 429,975	$ 328,220	$ 2,613,075	$ 335,780	$ 15,096,869
Program revenues:								
Charges for services	9	5,533,287	305,403	388,623	108,193	2,680,783	99,031	9,115,329
Operating grants and contributions:								
State aid - program	—	119,221	—	46,392	167,840	—	143,621	477,074
Other operating grants and contributions	121,885	1,630,401	912,318	—	49,407	106,323	14,263	2,834,597
Capital grants and contributions:								
State capital aid	—	324,829	103,031	—	—	—	29,441	457,301
Other capital grants and contributions	—	46,029	162,526	—	—	—	16,995	225,550
Net program (expense) revenue	76,367	(1,496,370)	(710,877)	5,040	(2,780)	174,031	(32,429)	(1,987,018)
Non-tax general revenues:								
State aid - general	69,128	2,590,810	895,570	11,685	—	—	36,679	3,603,872
Miscellaneous	—	4,065	1	—	—	—	1,692	5,758
Total non-tax general revenues	69,128	2,594,875	895,571	11,685	—	—	38,371	3,609,630
Contributions to endowments	—	106,189	12,113	—	—	—	—	118,302
Change in net assets	145,495	1,204,694	196,807	16,725	(2,780)	174,031	5,942	1,740,914
Net assets — July 1, as restated	559,040	12,353,351	2,589,688	519,711	583,839	(107,693)	882,890	17,380,826
Net assets — June 30	$ 704,535	$ 13,558,045	$ 2,786,495	$ 536,436	$ 581,059	$ 66,338	$ 888,832	$ 19,121,740

Significant Balances and Transactions Between Component Units

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Other Component Units	Total
The Golden LEAF, Inc.:								
Due from (due to) component units	$ (13,913)	$ 5,958	$ 4,640	$ —	$ 2,080	$ —	$ 1,235	$ —
Grant revenue (expense)	(7,219)	2,733	1,471	—	2,080	—	935	—
UNC System-grant revenue (expense)	—	(39,282)	—	—	39,282	—	—	—

Intra-Entity Balances — Between Primary Government and Component Units

	Due From/Restricted Due From Component Units			Due From/Restricted Due From Primary Government				
	Other Governmental Funds	Other Funds	Total	University of North Carolina System	Community Colleges	NC Housing Finance Agency	State Education Assistance Authority	Total
Due To Component Units:								
General Fund	$ —	$ —	$ —	$ 4,390	$ —	$ 48,411	$ —	$ 52,801
Other Governmental Funds	—	—	—	2,666	26,353	—	9,833	38,852
Other Funds	—	—	—	—	—	6,059	—	6,059
Due To Primary Government:								
The Golden LEAF, Inc.	1,532	—	1,532	—	—	—	—	—
University of North Carolina System	9	557	566	—	—	—	—	—
Community Colleges	—	37	37	—	—	—	—	—
State Health Plan	—	6	6	—	—	—	—	—
Other Component Units	1,433	24	1,457	—	—	—	—	—
Total	$ 2,974	$ 624	$ 3,598	$ 7,056	$ 26,353	$ 54,470	$ 9,833	$ 97,712

NOTE 20: RELATED ORGANIZATIONS

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 ranging from 13 to 20 members. Six of the members are appointed by the Governor. Another six members serve ex officio as follows: four are chancellors of universities in the University of North Carolina System, a component unit of the State; one is the president of MCNC; and one is designated by the Board of Trustees of Duke University. The remaining up to eight members are elected by the majority vote of persons then constituting the MCNC Board. Any appointed director may be removed from office by the Governor for cause. Any elected director may be removed by the Board of Directors at will.

Centennial Authority

The Centennial Authority (Authority) is a legally separate organization created by the 1995 General Assembly to study, design, plan, construct, own, promote, finance, and operate a regional facility on land owned by the State. Prior to this legislation, the General Assembly authorized the construction by North Carolina State University (NCSU) of a facility known as the Entertainment and Sports Arena (ESA). In fiscal year 2003, a naming rights agreement was executed to change the name of the ESA to the RBC Center. As a result of this agreement, NCSU will receive $13.18 million over a 10-year period beginning in fiscal year 2003. The RBC Center houses entertainment shows and is home to two sports teams, the National Hockey League's Carolina Hurricanes and NCSU men's basketball. The Authority is governed by a 21 member board comprised of 10 members appointed by the General Assembly, four members appointed by the Wake County Board of Commissioners, four members appointed by the Raleigh City Council, two members appointed jointly by the mayors of all the cities in Wake County, and the Chancellor of NCSU (or the Chancellor's designee). A member may be removed by the appointing authority for cause.

The Authority entered into a ground lease with the State of North Carolina to lease land for the RBC Center for a period of 99 years at an annual rent of $1. NCSU entered into a use agreement with the Authority. Both parties agreed that NCSU shall be the primary and preferred user of all areas of the RBC Center. NCSU is required to pay the greater of 10% of gross ticket revenues or $48 thousand for each men's and $21 thousand for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the RBC Center and the anticipated attendance. In fiscal year 2008, the University entered a capital improvement plan agreement with the Authority to pay $6 million in quarterly installments over the next 15 years.

North Carolina Capital Facilities Finance Agency

The North Carolina Capital Facilities Finance 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 22). 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.

NOTE 21: RELATED PARTY TRANSACTIONS

Primary Government

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

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

As of November 30, 2010 the Board engaged Galliard Capital Management (Galliard) to provide professional management of the "North Carolina Stable Value Fund" (Stable Value Fund). In this fiduciary role, they have the discretion over the benefit responsive contracts and the underlying managers, and have authority to invest in securities subject to guidelines agreed upon with 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, and shall report the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms, at least on a quarterly basis. Each Plan has investment management agreements with Prudential, Payden & Rygel, and Great-West Life and Annuity Company. The management fees for Galliard, Prudential, Payden & Rygel, and Great-West are deducted from participants' account balances.

For the Supplemental Retirement Income Plan of North Carolina (401(k) Plan), State Street Bank and Trust Company (State Street), contracted by the 401(k) Plan, provides custodial services for investments managed by Prudential and Payden & Rygel for the Stable Value Fund. Cash held in the Stable Value Fund was invested in the State Street Short Term Investment Fund. State Street also acts as the securities lending agent, and cash collateral related to securities lending is deposited in the Securities Lending Quality Trust, a commingled investment pool maintained by State Street. State Street's fees were paid as a percentage of the net earnings from securities lending. Prudential Retirement Services provides administrative services related to mutual funds, the Stable Value Fund and to Prudential Retirement Insurance and Annuity Company (a subsidiary of Prudential). Additionally, the 401(k) Plan invests in one common/commingled fund offered by Prudential.

For the North Carolina Public Employee Deferred Compensation Plan (Deferrred Comp Plan), State Street, contracted by the Deferred Comp Plan, provides custodial services for investments managed by Prudential and Payden & Rygel for the Stable Value Fund. Cash held in the Stable Value Fund was invested in the State Street Short Term Investment Fund. Effective December 2010, Wells Fargo Bank, N.A. replaced State Street as the custodian for this portion of the Stable Value Fund managed by Payden & Rygel, and the related cash was moved to Wells Fargo Bank, N.A. Short Term Investment Fund. Prudential Retirement Services provides administrative services related to mutual funds, the Stable Value Fund and to Prudential Retirement Insurance and Annuity Company (a subsidiary of Prudential). Additionally, the Deferred Comp Plan invests in one mutual fund and two common/commingled funds offered by Prudential.

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 assets, or operational transactions of these foundations, except for support from each organization to constituent institutions or colleges. For the fiscal year ended June 30, 2011, this support approximated $62.08 million for the UNC System and $239 thousand for community colleges.

NOTE 22: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2043, the outstanding principal of such bonds and notes as of June 30, 2011, was $7.3 billion with interest rates varying from 0.2% to 8%.

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 industry (in connection with manufacturing) where there is a favorable impact on employment or pollution control commensurate with the size and cost of the 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, and beginning in 2009, authority to issue Recovery Zone Facility Bonds (as authorized by the federal American Recovery and Reinvestment Act of 2009 (ARRA) and by amended State bond statutes) for projects that promote economic development and increased employment. The Recovery Zone Facility Bond program authorization expired on December 31, 2010. 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, 2011, was $2.8 billion with fixed interest rates varying from 2.5% to 7.1% and variable interest rates which can be reset weekly.

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.

***N.C. School Boards Association, et al. v. Richard H. Moore, State Treasurer, et al.* — Use of Administration Payments.** On December 14, 1998, plaintiffs, including county school boards of Wake, Durham, Johnston, Buncombe, Edgecombe and Lenoir Counties, filed suit in Superior Court requesting a declaration that certain payments to state administrative agencies must be distributed to the public schools on the theory that such amounts are civil penalties which under the North Carolina Constitution must be paid to the schools.

On December 14, 2001, the Superior Court of Wake County granted summary judgment in favor of the plaintiffs on all issues, concluding that the funds in dispute are civil fines or penalties required by Article IX, Section 7 of the Constitution to be remitted to the public schools in the county where the violation occurred. The court further determined a three-year statute of limitations to be applicable, making the order retroactive to December 1995. This case was argued in the Court of Appeals in February, 2003. The North Carolina Court of Appeals rendered a decision in September 2003 substantially favorable to the State. On July 1, 2005, the Supreme Court reversed the Court of Appeals in part, concluding that a majority of the funds in dispute are civil penalties required to be paid into the Civil Penalty and Forfeiture Fund for the benefit of public schools. The case was remanded to Superior Court and on August 8, 2008 the Superior Court entered judgment in the amount of $749.886 million. Of the $749.886 million, $731.703 million is included in the long-term liabilities footnote (Note 8). The Court acknowledged, however, that the judicial branch did not have the power to force the State to satisfy the judgment and that any decision to do so would have to come from the legislature.

***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.

***Pendergraph v. North Carolina Department of Revenue* – Refund of Income Taxes.** Taxpayers filed a class action complaint and petition for judicial review with the North Carolina Business Court for a refund of income taxes on September 24, 2009. Taxpayers are pursuing a constitutional challenge to North Carolina General Statute 128-31, North Carolina General Statute 135-9 and North Carolina General Statute 105-134.6, which repealed the tax exemptions for state and local retirement benefits and subjected all state, local and federal benefits above $4,000 to tax. These amendments became effective for taxable years beginning on or after January 1, 1989. The Department of Revenue has filed a motion to dismiss, which was granted by the trial court. Plaintiffs have appealed to the Court of Appeals. The amount at issue is not readily calculable, but it is likely to be in excess of $20 million.

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

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2011, the State is unable to estimate what liabilities may result from such audits.

D. Highway Construction

The State has placed on deposit in court $172.12 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 $61.96 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of $83.41 million. These costs have not been included in project-to-date costs.

E. USDA-Donated Commodities

The State has custodial responsibility for $2.69 million of U.S. Department of Agriculture donated food commodities for which the State is liable in the event of loss.

F. Construction and Other Commitments

At June 30, 2011, the State had commitments of $2.17 billion for construction of highway infrastructure. Of this amount, $1.62 billion relates to the Highway Fund, $199.94 million relates to the NC Turnpike Authority, and $349.49 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled $611.58 million (including $374.25 million for the Department of Environment and Natural Resources and $140.34 million for the Division of Mental Health within the Department of Health and Human Services).

At June 30, 2011, the University of North Carolina System (component unit) had outstanding construction commitments of $702.2 million (including $109.07 million for North Carolina State University, $108.81 million for University of North Carolina at Chapel Hill, $98.02 million for University of North Carolina at Charlotte, $71.84 million for East Carolina University, $50.32 million for Appalachian State University, $49.23 million for University of North Carolina at Greensboro, and $43.75 million for University of North Carolina at Wilmington).

At June 30, 2011, community colleges (component units) had outstanding construction commitments of $132.43 million (including $42.45 million for Cape Fear Community College, $24.75 million for Wake Technical Community College, $10.65 million for Forsyth Technical Community College, $9.64 million for Pitt Community College, $9.43 million for Guilford Technical Community College, and $8.75 million for Haywood 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, 2011, the State Treasurer has $2.16 billion in unfunded commitments in the Real Estate Investment portfolio which includes 74 million euro and 17 million pounds sterling converted to U.S. dollar equivalent. In the Alternative Investment portfolio, the State Treasurer has unfunded commitments of $2.05 billion which include 205 million euro converted to the U.S. dollar equivalent. At June 30, 2011, there were also unfunded commitments in the Inflation Protection Investment and Credit Investment portfolios in the amount of $809 million and $282 million, respectively.

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, 2011, the UNC Investment Fund had approximately $526.21 million unfunded committed capital.

At June 30, 2011, The Golden LEAF (Long-term Economic Advancement Foundation), Inc. (component unit) had outstanding commitments of $44.47 million to invest in several limited partnerships.

G. 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 $4.6 billion through the year 2025. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue 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.

In 2000, the State enacted legislation that established the Health and Wellness Trust Fund and the Tobacco Trust Fund and created commissions charged with managing these funds. From 2000 to 2011, each fund received 25% of the tobacco settlement payments. The purpose of the Health and Wellness Trust Fund is to finance programs and initiatives to improve the health and wellness of the people of North Carolina. An 18 member Health and Wellness Trust Fund Commission administers the Fund. The primary purpose of the Tobacco Trust Fund is to compensate the tobacco-related segment of North Carolina's economy for the economic hardship it is expected to experience as a result of the MSA. An 18 member Tobacco Trust Fund Commission administers the Fund. The Health and Wellness Trust Fund and Tobacco Trust Fund are reported in the General Fund. In Senate Bill 897 [Session Law 2010-31, Section 2.2(f)], the Health and Wellness Trust Fund was directed to transfer $10.4 million to the General Fund in order to support appropriations for the 2009-2010 and 2010-2011 fiscal years. In Senate Bill 897 [Session Law 2010-31, Section 2.2(i)] and Senate Bill 109 [Session Law 2011-15], the Tobacco Trust Fund was directed to transfer $5 million per bill to the General Fund in order to support appropriations.

In 2011, House Bill 200 [Session Law 2011-145] and House Bill 22 [Session Law 2011-391], the Health and Wellness Trust Fund and the Health and Wellness Trust Fund Commission were abolished. At June 30, 2011, the remaining funds, $35.42 million, were transferred to the General Fund to be used by the Department of Health and Human Services. Of these remaining funds, up to $22 million can be used to administer grants for specific prevention programs; and $10 million shall be used to reduce the total savings required to be achieved for the Medicaid program by Community Care of North Carolina. The remaining balance shall be used to reduce the Medicaid provider rate cut.

House Bill 200 [Session Law 2011-145] and House Bill 22 [Session Law 2011-391] stated that the Golden Leaf, Inc. would continue to get 50% of the settlement funds. The other 50% was to be used to pay anticipated debt service payments for special indebtedness authorized by the State Capital Facilities Act of 2004; $8 million was to be transferred to the University Cancer Research Fund; and the remaining balance shall be transferred to the General Fund to benefit tobacco producers, tobacco allotment holders, and persons engaged in tobacco-related businesses as well as to benefit programs that fund research, education, prevention and treatment of health problems in North Carolina.

H. Other Contingencies

As of June 30, 2011, the North Carolina Global TransPark Authority (Authority), a component unit of the State, had a loan outstanding including accrued interest payable totaling $23.174 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2012. Senate Bill 409 [Session Law 2011-340] required the Escheat Fund debt to be reduced by $17.5 million. As of October 18, 2011, the investment balance and the current amount of operating cash held by the Authority are not sufficient to pay the balance due to the Escheat Fund and as such, substantial doubt about the Authority's ability to continue as a going concern exists. In addition, if the Authority declares bankruptcy, funding received to date from the Federal Aviation Administration (FAA), Department of Defense (DOD), and Economic Development Administration (EDA) may be required to be paid back. Similarly, bankruptcy could trigger the reversionary interest of and/or monetary refunds to other grantors, such as the U.S. Department of Agriculture or the Golden Leaf, Inc., in addition to costs related to regulatory requirements of the U.S. Army Corps of Engineers, U.S. Surplus Property Act of 1944 and Department of Natural Resources' permits. As of June 30, 2011, the Authority has an amortized commitment of approximately $15.8 million from the FAA, DOD, and EDA.

NOTE 23: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2011, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*
- GASB Statement No. 59, *Financial Instruments Omnibus.*

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This pronouncement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. It clarifies that special revenue funds are created only to report a revenue source (or sources) that is restricted or committed to a specified purpose, and that the revenue source should constitute a substantial portion of the resources reported in the fund. The definition of the capital project fund type has been clarified to focus on the broader, more consistently understood notion of capital outlays, and to better capture the breadth of capital activities in today's environment. Definitions of other governmental fund types have been modified for clarity and consistency. Beginning fund balances of governmental funds were restated for fund reclassifications due to the implementation of this Statement (see Note 24).

GASB Statement No. 59 updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement applies the reporting provisions for interest-earning investment contracts of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and other postemployment benefit plans. Additionally, it amends GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to indicate that interest rate risk information should be disclosed only for investments in debt mutual funds, external debt investment pools, or other pooled debt investments.

NOTE 24: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the "Fund Reclassifications" column are due to the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (see Note 23: Changes in Financial Accounting and Reporting). The amounts in the "Other Adjustments" column include changes in the financial reporting entity to include certain occupational licensing boards (other enterprise funds) and the Gateway University Research Park, Inc. (a component unit of the University of North Carolina System) and correction of errors related to prior periods.

	July 1, 2010 Fund Equity as Previously Reported	Fund Reclassifications	Other Adjustments	July 1, 2010 Fund Equity as Restated
Primary Government				
Major Governmental Funds:				
General Fund	$ (114,168)	$ 709,033	$ (212)	$ 594,653
Highway Fund	848,599	—	(67,635)	780,964
Highway Trust Fund	(20,137)	—	67,635	47,498
Other Governmental Funds:				
Special Revenue Funds	2,422,957	(1,289,336)	(200,000)	933,621
Capital Projects Funds	190,209	583,890	—	774,099
Permanent Funds	91,907	(3,587)	—	88,320
Total Governmental Funds	3,419,367	—	(200,212)	3,219,155
Internal Service Funds	270,700	—	(2,339)	268,361
Government-wide adjustments:				
Capital assets	37,334,980	—	207,731	37,542,711
Unavailable deferred revenues	238,919	—	(7,101)	231,818
Long-term liabilities	(8,925,659)	—	103	(8,925,556)
Accrued interest payable	(86,265)	—	590	(85,675)
Investment derivatives	(52,365)	—	—	(52,365)
Pension assets	4,521	—	—	4,521
Total Government-wide adjustments	28,514,131	—	201,323	28,715,454
Total Governmental Activities	32,204,198	—	(1,228)	32,202,970
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	(1,701,066)	—	—	(1,701,066)
EPA Revolving Loan Fund	1,076,574	—	—	1,076,574
N.C. Turnpike Authority	99,285	—	—	99,285
Other enterprise funds	120,804	—	32,335	153,139
Total Business-type Activities - Enterprise Funds	(404,403)	—	32,335	(372,068)
Fiduciary Funds				
Pension and Other Employee Benefit Trust Funds	72,016,500	—	—	72,016,500
Investment Trust Fund	694,984	—	—	694,984
Private Purpose Trust Funds	1,074,593	—	—	1,074,593
Total Fiduciary Funds	73,786,077	—	—	73,786,077
Total Primary Government	$105,585,872	$ —	$ 31,107	$105,616,979
Component Units				
The Golden LEAF, Inc.	$ 559,040	$ —	$ —	$ 559,040
University of North Carolina System	12,307,264	—	46,087	12,353,351
Community Colleges	2,582,931	—	6,757	2,589,688
NC Housing Finance Agency	519,711	—	—	519,711
State Education Assistance Authority	583,839	—	—	583,839
State Health Plan	(107,661)	—	(32)	(107,693)
Other component units	882,875	—	15	882,890
Total Component Units	$ 17,327,999	$ —	$ 52,827	$ 17,380,826

NOTE 25: SUBSEQUENT EVENTS

Primary Government

A. Disaster Relief

Hurricane Irene

On August 27, 2011, Hurricane Irene made landfall in eastern North Carolina. As of September 15, 2011 estimated losses total approximately $425 million, of which $320 million are related to agriculture and crop damage. Residents in 38 counties are eligible for federal individual assistance for recovery costs and 37 counties are eligible for federal public assistance including low-interest loans and grants to help individuals and public entities recover from Hurricane Irene. In addition, farmers in 42 counties are eligible for disaster assistance from the United States Agriculture Department. The State will provide funds to satisfy the matching requirement for federal assistance. This 25% match requirement is only applied to the non-agriculture damage that has occurred, which at this point is approximately $29.66 million (based on estimates of $139.1 million in damage to non-agriculture entities). As with past hurricanes of this magnitude, it is anticipated the 25% match will be paid out over a number of fiscal years. The Governor, along with the North Carolina Congressional delegation, is working to reduce the amount of the federal match requirement to a level below the 25%. Potential sources for this funding include $6 million already contained in the fiscal year 2011-12 budget for disaster relief and eligible reserves including the Savings Reserve Fund, the Repair and Renovation Reserve Fund as well as other sources from throughout the entire state budget.

B. Bonds and Other Similar Debt

Limited Obligation Refunding Bonds

On October 26, 2011, the State issued $367.4 million in Limited Obligation Refunding Bonds, Series 2011B with an average coupon interest rate of 4.95% and with a true interest cost of 2.61%. The bonds are dated October 26, 2011, and bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1 commencing on May 1, 2012. The bonds will mature, subject to redemption provisions, from November 1, 2014 to 2023 inclusive, and were issued at coupon rates ranging from 4% to 5%. The proceeds of the Series 2011B Bonds were used to refund $139.3 million Lease-Purchase Revenue Bonds (North Carolina Correctional Facilities Projects), Series 2003, $10.7 million Certificates of Participation, Series 2003A, $24.8 million Lease-Purchase Revenue Bonds (North Carolina Facilities Projects), Series 2004, $71.5 million Certificates of Participation (State of North Carolina Correctional Facilities Projects), Series 2004A, $59 million Certificates of Participation (Repairs and Renovations Projects), Series 2004B, $77.2 million Certificates of Participation (State of North Carolina Capital Improvements), Series 2005A. 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 will be removed from the statement of net assets. The refunding was undertaken to reduce total debt service payments by $27.3 million over the next 13 years and resulted in an economic gain of $22.2 million. At October 26, 2011 the outstanding balance for the defeased bonds was $382.5 million.

Capital Improvement Limited Obligation Bonds

On November 29, 2011, the State issued $400 million of Capital Improvement Limited Obligation Bonds, Series 2011C. The Series 2011C Bonds are dated November 29, 2011 and will bear interest from that date. Interest will be payable semiannually on each May 1 and November 1, commencing May 1, 2012. The bonds will mature, subject to redemption provisions, from May 1, 2013 to May 1, 2032 inclusive, and were issued at coupon rates ranging from 3% to 5%. The bonds have a true interest cost of 3.51%. The 2011C Bonds were issued pursuant to the provisions of Session Laws 2003-284 of the North Carolina General Assembly and the State Capital Facilities Finance Act, Article 9 of Chapter 142 of the North Carolina General Statutes, as amended (the "State Capital Facilities Finance Act"), and in accordance with the provisions of various Session Laws (the "Project Acts"), a resolution of the North Carolina Council of State and the approval of the State Treasurer. The bonds were issued for the purpose of providing funding in varying amounts for authorized capital projects and to pay certain costs incurred in connection with the execution and delivery of the bonds.

Federal Repayable Advances

For the period July 1, 2011 through November 18, 2011, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of $439.91 million to finance an operating deficit in the State's unemployment compensation fund. Proceeds from the advances were used to pay unemployment benefits. The debt was interest free through December 31, 2010. Interest began accruing January 1, 2011 at an interest rate of 4.09%. The interest of $78.45 million was paid at the end of September 2011 from the State's surcharge reserve. The advances can be repaid from the unemployment tax contributions. Since July 1, 2011 total revenue collected from unemployment tax contributions was $448.84 million which was used entirely to pay down the principal on the advances. Meanwhile, the unemployment benefits continue to be paid from the FUA advances. At November 18, 2011, the outstanding balance of the FUA advances was approximately $2.53 billion.

North Carolina Turnpike Authority

On November 30, 2011, the North Carolina Turnpike Authority issued $214.51 million in tax-exempt Monroe Connector System State Appropriation Revenue Bonds, Series 2011. These bonds are dated November 30, 2011, and will bear interest from that date.

Interest on the bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2012. The bonds will mature from July 1, 2012 to July 1, 2041. The bonds were issued to provide funds for the construction of the Monroe Connector System. Included in this sale were serial and term bonds with the following terms:

- Serial bonds of $154.65 million, with interest rates ranging from 1.5% to 5%, maturing July 1, 2012 to July 1, 2031;
- Term bonds of $23.73 million, at an interest rate of 5%, due July 1, 2036;
- Term bonds of $2.61 million, at an interest rate of 4.25%, due July 1, 2036.
- Term bonds of $33.53 million, at an interest rate of 5%, due July 1, 2041.

Component Units

University of North Carolina at Greensboro – General Revenue Bonds and Revenue Refunding Bonds

On September 29, 2011, the University of North Carolina at Greensboro issued $73.34 million in Series 2011 tax-exempt General Revenue Bonds (General Revenue bonds) and $4.17 million in Series 2011 Revenue Refunding bonds (Revenue Refunding bonds) with an average interest rate of 4.32%. These bonds are dated September 29, 2011, and will bear interest from that date. Interest on both the bonds will be payable semiannually on each October 1 and April 1, commencing April 1, 2012. The bonds will mature from April 1, 2012 to April 1, 2036, and were issued at coupon rates ranging from 2% to 5%. The General Revenue bonds were issued to provide funds for the renovation of seven Quad Dormitories and the renovation of the Dining Hall. The Revenue Refunding bonds were issued to advance refund $4.22 million of outstanding 2002A University of North Carolina System Pool Revenue Bonds with an average interest rate of 5.14%. The net proceeds of the refunding bonds along with other resources were used to purchase 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 assets. This advance refunding was undertaken to reduce total debt service payments by $580.5 thousand over the next 16 years and resulted in an economic gain of $442.96 thousand.

University of North Carolina at Greensboro - Line of Credit

The Capital Facilities Foundation, Inc., a blended component unit of the University of North Carolina at Greensboro, closed on a line of credit for $67 million from SunTrust Bank on November 2, 2011 and an initial draw against the line in the amount of $15.99 million was made on that date. The proceeds from the line of credit will be used to pay costs to construct an 800 bed student housing facility and to retire an existing line of credit with RBC Bank used to purchase land. This line of credit is secured by the Capital Facilities Foundation, Inc. assignment of base rentals from the project to SunTrust Bank. The interest rate is set on the 1st business day of each month and is calculated by taking 75% of the 1 month London Interbank Offered Rate (LIBOR) rate plus 124 basis points.

North Carolina Housing Finance Agency – Home Ownership Revenue Bonds and Home Ownership Revenue Refunding Bonds

On August 25, 2011, the North Carolina Housing Finance Agency (the Agency) issued $34 million in tax-exempt Series 1 Home Ownership Revenue Bonds and $51 million in tax-exempt Series A-1 Home Ownership Revenue Bonds. The Series A-1 Home Ownership Revenue Bonds were converted from an existing series, Series A Home Ownership Revenue Bonds, which were sold in December 2009. These bonds are dated August 25, 2011, and will bear interest from that date. Interest on the bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2012. The bonds will mature from January 1, 2012 to July 1, 2028 and were issued at coupon rates ranging from .25% to 4.5%. The bonds were issued to provide funds for the purchase of mortgage loans.

On November 17, 2011, the Agency issued $136.16 million in Series 32 taxable Home Ownership Revenue Refunding Bonds. These bonds are dated November 1, 2011, and will bear interest from that date. Interest on the bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2012. The bonds will mature on January 1, 2030 and bear an interest rate of 4%. The bonds were issued to provide savings to the Agency by refunding bonds at a higher rate of interest with bonds at a lower rate of interest.

REQUIRED SUPPLEMENTARY INFORMATION

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

June 30, 2011

(Expressed in Thousands)

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a) NOTE 1	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	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)%
	12-31-06	52,420,808	49,391,907	(3,028,901)	106.1%	11,711,386	(25.9)%
	12-31-05	49,670,182	46,624,668	(3,045,514)	106.5%	10,990,239	(27.7)%
Consolidated Judicial	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)%
	12-31-06	406,015	378,490	(27,525)	107.3%	53,348	(51.6)%
	12-31-05	382,501	355,498	(27,003)	107.6%	51,018	(52.9)%
Legislative	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)%
	12-31-06	29,589	21,742	(7,847)	136.1%	3,695	(212.4)%
	12-31-05	28,381	21,524	(6,857)	131.9%	3,681	(186.3)%
Firemen's and Rescue Squad Workers'	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
	6-30-06	287,933	304,339	16,406	94.6%	N/A	N/A
	6-30-05	274,265	285,356	11,091	96.1%	N/A	N/A
North Carolina National Guard	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
	12-31-06	66,898	105,017	38,119	63.7%	N/A	N/A
	12-31-05	59,204	81,803	22,599	72.4%	N/A	N/A
Registers of Deeds'	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)%
	12-31-06	32,371	17,375	(14,996)	186.3%	5,558	(269.8)%
	12-31-05	28,242	11,788	(16,454)	239.6%	5,367	(306.6)%
Local Governmental Employees'	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%
	12-31-06	15,564,789	15,643,377	78,588	99.5%	4,468,394	1.8%
	12-31-05	14,395,849	14,480,208	84,359	99.4%	4,241,334	2.0%

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 140.

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

For the Six-Year Period 2006 to 2011 (July 1 to June 30)

(Expressed in Thousands)

Retirement System	State Fiscal Year	Annual Required Contribution	Percentage Contributed	
Teachers' and State Employees'	2011	$ 902,661	73%	
	2010	483,205	100%	
	2009	472,374	100%	
	2008	406,576	99%	Note 1
	2007	332,149	100%	Note 2
	2006	269,587	100%	
Consolidated Judicial	2011	$ 13,082	78%	
	2010	10,248	100%	
	2009	8,373	106%	
	2008	8,158	104%	Note 1
	2007	6,520	100%	Note 2
	2006	6,448	100%	Note 2
Legislative	2011	$ —	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	Note 1
	2007	—	NR	
	2006	—	NR	
Firemen's and Rescue Squad Workers'	2011	$ 12,243	83%	
	2010	10,074	100%	
	2009	9,757	100%	
	2008	8,734	100%	
	2007	8,440	100%	
	2006	7,926	100%	
North Carolina National Guard	2011	$ 5,719	122%	
	2010	5,682	123%	
	2009	6,248	94%	
	2008	6,232	112%	
	2007	7,324	96%	
	2006	5,944	102%	
Registers of Deeds' Note 3	2011	$ —	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	
	2007	—	NR	
	2006	—	NR	
Local Governmental Employees'	2011	$ 341,157	100%	
	2010	262,591	100%	
	2009	265,690	100%	
	2008	246,004	100%	
	2007	233,003	100%	
	2006	226,665	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- The State made minor additional contributions not related to the ARC disclosed in that year's CAFR.
Note 3- 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 140.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2011

(Expressed in Thousands)

	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (1)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c) (2)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Retiree Health Benefit	12-31-10	$ 655,445	$ 33,494,641	$ 32,839,196	2.0%	$ 15,098,336	217.5%
	12-31-09	556,303	33,321,784	32,765,481	1.7%	15,131,146	216.5%
	12-31-08	434,769	28,288,439	27,853,670	1.5%	15,295,560	182.1%
Disability Income	12-31-10	$ 377,995	$ 498,506	$ 120,511	75.8%	$ 14,360,373	0.8%
	12-31-09	352,628	492,731	140,103	71.6%	14,534,661	1.0%
	12-31-08	350,145	477,574	127,429	73.3%	14,493,066	0.9%

(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. Aon Consulting 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, 2009-2011

(Expressed in Thousands)

		State Fiscal Year	Annual Required Contribution	Percentage Contributed
Retiree Health Benefit	(1)	2011	$ 2,910,616	30%
		2010	3,018,969	27%
		2009	2,674,416	31%
Disability Income		2011	$ 67,841	113%
		2010	72,428	107%
		2009	78,314	102%

(1) Total contributions as defined by the actuary are the total net retiree benefits paid by the State Health Plan plus employer contributions deposited to the Retiree Health Benefit Fund less payments from the Fund to the State Health Plan during the fiscal year.

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, 2011

(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Individual income	$ 9,543,300	$ 9,543,300	$ 9,734,868	$ 191,568
Corporate income	1,017,450	1,017,450	1,013,547	(3,903)
Sales and use	5,690,800	5,690,800	5,871,669	180,869
Franchise	697,900	697,900	607,500	(90,400)
Insurance	494,500	494,500	480,135	(14,365)
Beverage	277,200	277,200	275,194	(2,006)
Inheritance	10,100	10,100	23,755	13,655
Tobacco products	251,400	251,400	265,270	13,870
Other	109,500	109,500	108,179	(1,321)
Non-Tax:				
Fees, licenses and fines	253,030	253,030	311,582	58,552
Investment income	57,500	57,500	26,306	(31,194)
Disproportionate share receipts	135,000	135,000	135,000	—
Other	367,370	367,370	360,776	(6,594)
Transfers in	72,800	72,800	89,899	17,099
Tobacco settlement	—	69,128	69,128	—
Departmental:				
Federal funds	12,709,989	12,126,819	10,579,345	(1,547,474)
Local funds	678,113	722,510	708,611	(13,899)
Inter-agency grants and allocations	22,901	489,243	16,012	(473,231)
Intra-governmental transactions	3,579,489	6,816,930	6,180,751	(636,179)
Sales and services	106,546	130,666	126,020	(4,646)
Rental and lease of property	9,568	14,486	16,690	2,204
Fees, licenses and fines	532,162	551,456	539,736	(11,720)
Contributions, gifts and grants	957,538	1,421,861	1,265,454	(156,407)
Federal recovery funds	206,774	2,025,674	1,873,195	(152,479)
Miscellaneous	380,328	416,106	205,958	(210,148)
Total Revenues	38,161,258	43,762,729	40,884,580	(2,878,149)
Expenditures:				
Current:				
General government	1,111,407	1,141,515	959,486	182,029
Primary and secondary education	10,863,988	13,478,057	11,239,866	2,238,191
Higher education	4,146,591	4,191,451	4,053,567	137,884
Health and human services	17,895,601	20,781,573	19,831,445	950,128
Environment and natural resources	591,071	484,738	435,673	49,065
Economic development	218,867	411,261	320,739	90,522
Public safety, corrections, and regulation	2,594,826	2,933,212	2,636,910	296,302
Agriculture	123,696	181,015	174,419	6,596
Capital outlay	11,173	11,173	11,173	—
Debt service	696,181	719,712	692,460	27,252
Total Expenditures	38,253,401	44,333,707	40,355,738	3,977,969
Excess revenues over (under) expenditures	(92,143)	(570,978)	528,842	1,099,820
Total fund balance at July 1, 2010, as restated	1,456,285	1,456,285	1,456,285	—
Total fund balance at June 30, 2011	$ 1,364,142	$ 885,307	$ 1,985,127	$ 1,099,820

Fund balance reserved:	
Statutory	$ 434,324
Non-reverting purposes	968,353
Fund balance unreserved	582,450
Total fund balance at June 30, 2011	$ 1,985,127

BUDGETARY REPORTING

A. General Fund Budgetary Process

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section C below.

On July 20, 2006, the General Assembly passed 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.

Entity differences. Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in the General Fund for GAAP purposes.

Basis differences. Budgetary funds are accounted for on the cash basis of accounting, while under GAAP the governmental funds use the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Timing differences. A significant variance between budgetary practices and GAAP is the authorized carryforward of appropriated funds, which is described in section A.

The following table presents a reconciliation of resulting entity, basis and timing differences in the fund balances (budgetary basis) at June 30, 2011 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

	General Fund
Fund balance (budgetary basis), June 30, 2011	$ 1,985,127
Reconciling Adjustments:	
Entity Difference:	
Primary government:	
Other	1,253
Basis Differences:	
Accrued revenues:	
Taxes receivable	1,616,815
Accounts receivable	259,895
Federal funds, net	673,814
Other receivables	156,123
Less:	
Tax refunds payable	(1,382,700)
Deferred revenue	(516,660)
Total accrued revenues	807,287
Accrued expenditures:	
Medical claims payable	(984,844)
Accounts payable and accrued liabilities	(682,197)
Other payables	(163,156)
Total accrued expenditures	(1,830,197)
Other Adjustments:	
Notes receivable	70,857
Inventories	93,259
Investment Market Value	(12,574)
Timing Differences:	
Authorized carryforward for specific encumbrances	68,693
Fund balance (GAAP basis) June 30, 2011	$ 1,183,705

D. Budgetary Reserves

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

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

At the beginning of fiscal year 2010-11 the balance of the Savings Reserve Account was $150 million. During fiscal year 2010-11, $38 million was transferred to the Department of Health and Human Services for the loss of the enhanced Federal Medical Assistance Percentage (FMAP), as initially authorized under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). This transfer was authorized by Session Law 2010-31 as amended by Session Law 2010-123. In accordance with Session Law 2011-145 as amended by Session Law 2011-395, the State Controller was directed to transfer $183.6 million from the unreserved fund balance to the Savings Reserve on June 30, 2011. At the end of the fical year 2010-2011, the balance of this reserve was $295.6 million.

Repairs and Renovations Reserve Account (General Statute 143C–4–3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2011-145 as amended by Session Law 2011-391, the State Controller was directed to transfer $124.5 million from the unreserved fund balance to the Repairs and Renovatons Reserve on June 30, 2011. At the end of the fiscal year 2010-2011, the balance of this reserve was $124.5 million.

Disproportionate Share Reserve Account (Session Law 2009-451, Senate Bill 202, Section 10.64(a)). Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as non-tax revenues. At the end of the fiscal year 2010-11, there was no remaining balance.

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. During fiscal year 2010-11, $4.3 million was disbursed from this reserve for disaster related expenditures and $30 million was transferred to the Department of Health and Human Services for the loss of the enhanced Federal Medical Assistance Percentage (FMAP), as initially authorized under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). This transfer was authorized by Session Law 2010-31 as amended by Session Law 2010-123. At the end of the fiscal year 2010-11, the balance of this reserve was $7 million.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143-15.3E). 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. Funds in the amount of $4.5 million were appropriated for fiscal year 2004-05, $9 million for fiscal year 2005-06, $12.4 million for fiscal year 2006-07, $12.4 million for fiscal year 2007-08, $27.4 million for fiscal year 2008-09 and $19 million for fiscal year 2009-10. While $27.4 million was appropriated for JDIG for fiscal year 2008-09, this entire amount was directed by the Governor to revert at year end to help ensure that the State not incur a deficit. The JDIG Reserve was appropriated $20.8 million for fiscal year 2010-11 and $16.7 million was disbursed from this reserve. At the end of fiscal year 2010-11, the balance of this reserve was $7.2 million.

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COMBINING FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011 *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 693,918	$ —	$ 3,889	$ 697,807
Investments	225,635	—	—	225,635
Securities lending collateral	55,947	2,972	8,415	67,334
Receivables, net:				
Taxes receivable	2,237	—	—	2,237
Accounts receivable	17,962	336	18	18,316
Intergovernmental receivable	14,422	2,172	—	16,594
Interest receivable	452	196	6	654
Due from other funds	9,256	—	—	9,256
Due from component units	2,974	—	—	2,974
Inventories	27,465	—	—	27,465
Advances to component units	21,742	—	—	21,742
Notes receivable, net	951	41,320	—	42,271
Securities held in trust	45,716	—	—	45,716
Restricted/designated cash and cash equivalents	—	193,169	3,868	197,037
Restricted investments	2,031	455,126	88,271	545,428
Total Assets	$ 1,120,708	$ 695,291	$ 104,467	$ 1,920,466
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	$ 28,034	$ 42,434	$ —	$ 70,468
Accrued payroll	364	—	—	364
Intergovernmental payable	8,403	178	—	8,581
Claims payable	37,492	—	—	37,492
Obligations under securities lending	57,307	3,106	8,769	69,182
Due to other funds	8,598	6	—	8,604
Due to component units	9,833	29,019	—	38,852
Deferred revenue	27,600	1,670	—	29,270
Deposits payable	6	1	—	7
Funds held for others	45,826	—	—	45,826
Total Liabilities	223,463	76,414	8,769	308,646
Fund Balances:				
Nonspendable	27,465	—	84,588	112,053
Restricted	481,240	413,659	7,311	902,210
Committed	389,226	206,159	3,799	599,184
Unassigned	(686)	(941)	—	(1,627)
Total Fund Balances	897,245	618,877	95,698	1,611,820
Total Liabilities and Fund Balances	$ 1,120,708	$ 695,291	$ 104,467	$ 1,920,466

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

For the Fiscal Year Ended June 30, 2011 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax	$ 2,496	$ —	$ —	$ 2,496
Sales and use tax	29,321	—	—	29,321
Gasoline tax	28,004	—	—	28,004
Insurance tax	15,043	—	—	15,043
Other taxes	134,453	—	—	134,453
Federal funds	335,073	3,240	—	338,313
Local funds	19,531	—	—	19,531
Investment earnings	35,738	1,113	4,583	41,434
Interest earnings on loans	27	944	—	971
Sales and services	144,967	727	—	145,694
Rental and lease of property	2,537	36	—	2,573
Fees, licenses, and fines	194,903	1,307	3,181	199,391
Contributions, gifts, and grants	38,516	40,252	7	78,775
Funds escheated	111,481	—	—	111,481
Federal recovery funds	132,239	18,527	—	150,766
Miscellaneous	23,788	73	—	23,861
Total revenues	1,248,117	66,219	7,771	1,322,107
Expenditures:				
Current:				
General government	41,012	151	—	41,163
Higher education	130,297	361,582	27	491,906
Health and human services	94,108	—	—	94,108
Economic development	404,283	3,694	—	407,977
Environment and natural resources	239,337	21,750	184	261,271
Public safety, corrections, and regulation	258,388	—	—	258,388
Transportation	8	—	—	8
Agriculture	11,612	—	—	11,612
Capital outlay	—	364,121	—	364,121
Debt service:				
Principal retirement	3,787	—	—	3,787
Interest and fees	862	37	—	899
Debt issuance costs	—	3,233	—	3,233
Total expenditures	1,183,694	754,568	211	1,938,473
Excess revenues over (under) expenditures	64,423	(688,349)	7,560	(616,366)
Other Financing Sources (Uses):				
Special indebtedness issued	—	500,000	—	500,000
Premium on debt issued	—	32,322	—	32,322
Sale of capital assets	235	1	—	236
Insurance recoveries	8	—	—	8
Transfers in	41,430	36,973	—	78,403
Transfers out	(142,472)	(36,169)	(182)	(178,823)
Total other financing sources (uses)	(100,799)	533,127	(182)	432,146
Net change in fund balances	(36,376)	(155,222)	7,378	(184,220)
Fund balances — July 1, as restated	933,621	774,099	88,320	1,796,040
Fund balances — June 30	$ 897,245	$ 618,877	$ 95,698	$ 1,611,820

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NONMAJOR SPECIAL REVENUE FUNDS

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

The following are included in the nonmajor special revenue funds:

Escheat Fund
Correction Enterprises Fund
Employment Security Commission Funds
Employment and Training Administration Fund
Leaking Petroleum Underground Storage Tank Cleanup Fund
Wildlife Resources Commission Fund
Natural Heritage Trust Fund
911 Fund
Parks and Recreation Trust Fund
Environment Management Protection Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2011

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Employment Security Commission Funds	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Wildlife Resources Commission Fund
Assets						
Cash and cash equivalents	$ 211,594	$ 12,285	$ 17,949	$ 2,876	$ 57,022	$ 20,845
Investments	225,356	—	—	—	—	—
Securities lending collateral	26,910	—	—	—	4,783	1,193
Receivables, net:						
Taxes receivable	—	—	—	—	1,538	—
Accounts receivable	—	1,950	784	—	448	549
Intergovernmental receivable	—	182	979	—	—	3,001
Interest receivable	178	—	—	—	48	12
Due from other funds	—	1,817	3,080	—	—	—
Due from component units	1,432	10	—	—	—	—
Inventories	—	22,240	223	—	—	1,660
Advances to component units	21,742	—	—	—	—	—
Notes receivable, net	—	—	—	—	648	—
Securities held in trust	—	—	—	—	—	—
Restricted investments	—	—	—	—	—	—
Total Assets	$ 487,212	$ 38,484	$ 23,015	$ 2,876	$ 64,487	$ 27,260
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	$ 15	$ 3,063	$ 5,164	$ 525	$ 920	$ 675
Accrued payroll	—	7	112	1	—	48
Intergovernmental payable	—	1	2,464	—	—	—
Claims payable	37,492	—	—	—	—	—
Obligations under securities lending	27,413	—	—	—	4,974	1,233
Due to other funds	—	248	7,658	17	—	184
Due to component units	9,833	—	—	—	—	—
Deferred revenue	3,310	26	—	—	—	—
Deposits payable	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—
Total Liabilities	78,063	3,345	15,398	543	5,894	2,140
Fund Balances:						
Nonspendable	—	22,240	223	—	—	1,660
Restricted	409,149	—	7,394	2,333	—	22,918
Committed	—	12,899	—	—	58,593	542
Unassigned	—	—	—	—	—	—
Total Fund Balances	409,149	35,139	7,617	2,333	58,593	25,120
Total Liabilities and Fund Balances	$ 487,212	$ 38,484	$ 23,015	$ 2,876	$ 64,487	$ 27,260

Exhibit C-3

Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Environment Management Protection Fund	Departmental Funds	Total Nonmajor Special Revenue Funds
$ 14,375	$ 35,063	$ 30,955	$ 127,104	$ 163,850	$ 693,918
—	—	—	—	279	225,635
1,207	3,004	2,506	8,108	8,236	55,947
—	—	—	699	—	2,237
11	6,034	11	1,992	6,183	17,962
—	—	—	473	9,787	14,422
12	28	25	85	64	452
—	—	—	4,138	221	9,256
—	—	—	—	1,532	2,974
—	—	—	—	3,342	27,465
—	—	—	—	—	21,742
—	—	—	—	303	951
—	—	—	45,716	—	45,716
—	—	—	2,031	—	2,031
$ 15,605	$ 44,129	$ 33,497	$ 190,346	$ 193,797	$ 1,120,708
$ 55	$ 276	$ —	$ 3,017	$ 14,324	$ 28,034
—	—	—	76	120	364
—	5,394	186	197	161	8,403
—	—	—	—	—	37,492
1,226	3,120	2,571	8,551	8,219	57,307
—	72	—	82	337	8,598
—	—	—	—	—	9,833
—	—	—	69	24,195	27,600
—	—	—	—	6	6
—	—	—	45,716	110	45,826
1,281	8,862	2,757	57,708	47,472	223,463
—	—	—	—	3,342	27,465
—	—	—	1,233	38,213	481,240
14,324	35,267	30,740	131,405	105,456	389,226
—	—	—	—	(686)	(686)
14,324	35,267	30,740	132,638	146,325	897,245
$ 15,605	$ 44,129	$ 33,497	$ 190,346	$ 193,797	$ 1,120,708

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

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Employment Security Commission Funds	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Wildlife Resources Commission Fund
Revenues:						
Taxes:						
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use tax	—	—	—	—	—	21,500
Gasoline tax	—	—	—	—	17,857	2,021
Insurance tax	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—
Federal funds	—	—	150,765	84,547	—	18,948
Local funds	—	—	13,500	—	—	239
Investment earnings	30,377	—	—	—	946	204
Interest earnings on loans	—	—	—	—	—	—
Sales and services	1	89,885	—	1	—	4,694
Rental and lease of property	—	243	—	—	—	61
Fees, licenses, and fines	—	—	712	255	10,812	22,990
Contributions, gifts, and grants	—	50	1,400	40	—	1,271
Funds escheated	111,481	—	—	—	—	—
Federal recovery funds	—	—	24,576	24,147	—	—
Miscellaneous	—	167	719	—	—	563
Total revenues	141,859	90,345	191,672	108,990	29,615	72,491
Expenditures:						
Current:						
General government	—	—	—	—	—	—
Higher education	129,691	—	—	—	—	—
Health and human services	—	—	—	—	—	—
Economic development	—	—	205,855	108,141	—	—
Environment and natural resources	—	—	—	—	34,624	64,202
Public safety, corrections, and regulation	—	84,774	—	—	—	—
Transportation	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Debt service:						
Principal retirement	—	—	—	—	—	765
Interest and fees	—	—	—	—	—	666
Total expenditures	129,691	84,774	205,855	108,141	34,624	65,633
Excess revenues over (under) expenditures	12,168	5,571	(14,183)	849	(5,009)	6,858
Other Financing Sources (Uses):						
Sale of capital assets	—	96	—	—	—	83
Insurance recoveries	—	—	—	—	—	—
Transfers in	—	202	12,911	—	3,946	403
Transfers out	(20,502)	(5,165)	(46)	(576)	(6,082)	(9,811)
Total other financing sources (uses)	(20,502)	(4,867)	12,865	(576)	(2,136)	(9,325)
Net change in fund balances	(8,334)	704	(1,318)	273	(7,145)	(2,467)
Fund balances — July 1, as restated	417,483	34,435	8,935	2,060	65,738	27,587
Fund balances — June 30	$ 409,149	$ 35,139	$ 7,617	$ 2,333	$ 58,593	$ 25,120

Exhibit C-4

Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Environment Management Protection Fund	Departmental Funds	Total Nonmajor Special Revenue Funds
$ —	$ —	$ —	$ —	$ 2,496	$ 2,496
—	—	—	7,821	—	29,321
—	—	—	8,126	—	28,004
—	—	—	—	15,043	15,043
7,933	71,663	23,799	16,397	14,661	134,453
—	—	—	—	80,813	335,073
—	—	—	—	5,792	19,531
337	568	495	753	2,058	35,738
—	—	—	—	27	27
—	724	—	1,650	48,012	144,967
—	—	—	697	1,536	2,537
4,367	—	1,439	67,236	87,092	194,903
—	—	—	3,249	32,506	38,516
—	—	—	—	—	111,481
—	—	—	4,613	78,903	132,239
—	—	—	6,024	16,315	23,788
12,637	72,955	25,733	116,566	385,254	1,248,117
—	—	—	—	41,012	41,012
—	—	—	—	606	130,297
—	—	—	—	94,108	94,108
—	—	—	—	90,287	404,283
16,435	—	21,301	102,775	—	239,337
—	81,452	—	—	92,162	258,388
—	—	—	—	8	8
—	—	—	—	11,612	11,612
—	—	—	1,089	1,933	3,787
—	—	—	6	190	862
16,435	81,452	21,301	103,870	331,918	1,183,694
(3,798)	(8,497)	4,432	12,696	53,336	64,423
—	—	—	14	42	235
—	—	—	—	8	8
—	—	—	3,925	20,043	41,430
(6,302)	(71)	(10,225)	(19,651)	(64,041)	(142,472)
(6,302)	(71)	(10,225)	(15,712)	(43,948)	(100,799)
(10,100)	(8,568)	(5,793)	(3,016)	9,388	(36,376)
24,424	43,835	36,533	135,654	136,937	933,621
$ 14,324	$ 35,267	$ 30,740	$ 132,638	$ 146,325	$ 897,245

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, 2011

(Dollars in Thousands)

	Escheat Fund			Correction Enterprises Fund			Employment Security Commission Funds		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$155,862	$ 151,806	$ (4,056)
Local funds	—	—	—	—	—	—	19,195	14,046	(5,149)
Inter-agency grants and allocations	—	—	—	130	51	(79)	2,788	1,448	(1,340)
Intra-governmental transactions	—	—	—	43	218	175	59,824	24,941	(34,883)
Sales and services	—	1	1	90,033	91,293	1,260	—	—	—
Sale, rental, and lease of property	—	—	—	307	365	58	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	5,000	4,618	(382)
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	27,985	24,576	(3,409)
Miscellaneous	211,940	91,818	(120,122)	246	191	(55)	1,705	836	(869)
Total revenues	211,940	91,819	(120,121)	90,759	92,118	1,359	272,359	222,271	(50,088)
Expenditures:									
Current:									
General government	—	—	—	—	—	—	—	—	—
Higher education	150,183	147,609	2,574	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	272,359	223,072	49,287
Environmental and natural resources	—	—	—	—	—	—	—	—	—
Public safety and corrections	—	—	—	94,942	92,822	2,120	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Total expenditures	150,183	147,609	2,574	94,942	92,822	2,120	272,359	223,072	49,287
Excess revenues over (under) expenditures	$ 61,757	(55,790)	$ (117,547)	$ (4,183)	(704)	$ 3,479	$ —	(801)	$ (801)
Fund balances (budgetary basis) at July 1, 2010		480,691			12,989			18,750	
Restatements		—			—			—	
Fund balances (budgetary basis) at June 30, 2011		$ 424,901			$ 12,285			$ 17,949	

Exhibit C-5

Employment and Training Administation Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund			Wildlife Resources Commission Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ 134,430	$ 84,546	$ (49,884)	$ —	$ —	$ —	$ 18,152	$ 18,967	$ 815
—	—	—	—	—	—	180	239	59
—	—	—	—	—	—	402	402	—
—	41	41	23,053	21,807	(1,246)	84,131	83,980	(151)
—	1	1	—	—	—	6,167	4,639	(1,528)
1	—	(1)	—	—	—	74	150	76
265	255	(10)	11,580	10,866	(714)	21,784	22,735	951
—	41	41	—	—	—	427	490	63
24,147	24,147	—	—	—	—	—	—	—
—	—	—	110	667	557	513	762	249
158,843	109,031	(49,812)	34,743	33,340	(1,403)	131,830	132,364	534
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
165,357	108,752	56,605	—	—	—	—	—	—
—	—	—	43,301	42,998	303	138,483	133,547	4,936
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	765	765	—
—	—	—	—	—	—	671	666	5
165,357	108,752	56,605	43,301	42,998	303	139,919	134,978	4,941
$ (6,514)	279	$ 6,793	$ (8,558)	(9,658)	$ (1,100)	$ (8,089)	(2,614)	$ 5,475
	2,554			66,679			23,459	
	—			—			—	
	$ 2,833			$ 57,021			$ 20,845	

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, 2011

(Dollars in Thousands)

	Natural Heritage Trust Fund			911 Fund			Parks and Recreation Trust Fund		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—	—
Intra-governmental transactions	15,150	7,933	(7,217)	—	11	11	33,395	21,726	(11,669)
Sales and services	—	—	—	724	737	13	—	—	—
Sale, rental, and lease of property	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines	4,000	4,364	364	72,427	72,883	456	1,425	3,509	2,084
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	—	—	—
Miscellaneous	1,000	226	(774)	665	410	(255)	1,794	373	(1,421)
Total revenues	20,150	12,523	(7,627)	73,816	74,041	225	36,614	25,608	(11,006)
Expenditures:									
Current:									
General government	—	—	—	—	—	—	—	—	—
Higher education	—	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	—	—	—
Environmental and natural resources	33,251	22,678	10,573	—	—	—	48,974	31,681	17,293
Public safety and corrections	—	—	—	97,066	82,429	14,637	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Total expenditures	33,251	22,678	10,573	97,066	82,429	14,637	48,974	31,681	17,293
Excess revenues over (under) expenditures	$ (13,101)	(10,155)	$ 2,946	$ (23,250)	(8,388)	$ 14,862	$ (12,360)	(6,073)	$ 6,287
Fund balances (budgetary basis) at July 1, 2010		24,530			43,451			37,028	
Restatements		—			—			—	
Fund balances (budgetary basis) at June 30, 2011		$ 14,375			$ 35,063			$ 30,955	

Exhibit C-5

Environment Management Protection Fund			Departmental Funds			Total Nonmajor Special Revenue Funds		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ 1,051	$ —	$ (1,051)	$200,444	$ 81,226	$ (119,218)	$ 509,939	$ 336,545	$ (173,394)
2	—	(2)	11,211	5,790	(5,421)	30,588	20,075	(10,513)
3,538	3,202	(336)	37,137	22,972	(14,165)	43,995	28,075	(15,920)
52,203	55,149	2,946	99,355	73,521	(25,834)	367,154	289,327	(77,827)
2,221	1,760	(461)	50,365	48,028	(2,337)	149,510	146,459	(3,051)
533	403	(130)	1,886	1,552	(334)	2,801	2,470	(331)
111,221	68,318	(42,903)	75,730	80,771	5,041	303,432	268,319	(35,113)
119	47	(72)	13,338	14,184	846	13,884	14,762	878
4,323	4,323	—	70,163	70,163	—	126,618	123,209	(3,409)
2,593	7,124	4,531	77,931	36,368	(41,563)	298,497	138,775	(159,722)
177,804	140,326	(37,478)	637,560	434,575	(202,985)	1,846,418	1,368,016	(478,402)
—	—	—	102,757	44,127	58,630	102,757	44,127	58,630
—	—	—	806	609	197	150,989	148,218	2,771
—	—	—	141,377	117,713	23,664	141,377	117,713	23,664
—	—	—	198,427	84,135	114,292	636,143	415,959	220,184
195,366	143,670	51,696	—	—	—	459,375	374,574	84,801
—	—	—	179,835	151,741	28,094	371,843	326,992	44,851
—	—	—	30,365	26,494	3,871	30,365	26,494	3,871
		—						
1,092	1,092	—	—	—	—	1,857	1,857	—
1,017	3	1,014	—	—	—	1,688	669	1,019
197,475	144,765	52,710	653,567	424,819	228,748	1,896,394	1,456,603	439,791
$ (19,671)	(4,439)	$ 15,232	$ (16,007)	9,756	$ 25,763	$ (49,976)	(88,587)	$ (38,611)
	133,605			153,674			997,410	
	—			—			—	
	$ 129,166			$163,430			$ 908,823	

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Nonmajor Capital Projects Funds

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

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

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

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

June 30, 2011 *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
Assets					
Securities lending collateral	$ 2,972	$ —	$ —	$ —	$ 2,972
Receivables, net:					
Accounts receivable	336	—	—	—	336
Intergovernmental receivable	2,172	—	—	—	2,172
Interest receivable	191	5	—	—	196
Notes receivable, net	41,320	—	—	—	41,320
Restricted/designated cash and cash equivalents	192,341	107	—	721	193,169
Restricted investments	—	440,428	14,698	—	455,126
Total Assets	$ 239,332	$ 440,540	$ 14,698	$ 721	$ 695,291
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 13,126	$ 28,727	$ 581	$ —	$ 42,434
Intergovernmental payable	175	3	—	—	178
Obligations under securities lending	3,106	—	—	—	3,106
Due to other funds	6	—	—	—	6
Due to component units	8,469	18,024	2,526	—	29,019
Deferred revenue	1,670	—	—	—	1,670
Deposits payable	1	—	—	—	1
Total Liabilities	26,553	46,754	3,107	—	76,414
Fund Balances:					
Restricted	7,561	393,786	11,591	721	413,659
Committed	206,159	—	—	—	206,159
Unassigned	(941)	—	—	—	(941)
Total Fund Balances	212,779	393,786	11,591	721	618,877
Total Liabilities and Fund Balances	$ 239,332	$ 440,540	$ 14,698	$ 721	$ 695,291

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

For the Fiscal Year Ended June 30, 2011 *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
Revenues:					
Federal funds	$ 3,240	$ —	$ —	$ —	$ 3,240
Investment earnings	468	613	32	—	1,113
Interest earnings on loans	944	—	—	—	944
Sales and services	727	—	—	—	727
Rental and lease of property	36	—	—	—	36
Fees, licenses and fines	1,307	—	—	—	1,307
Contributions, gifts, and grants	40,252	—	—	—	40,252
Federal recovery funds	18,527	—	—	—	18,527
Miscellaneous	73	—	—	—	73
Total revenues	65,574	613	32	—	66,219
Expenditures:					
Current:					
General government	—	151	—	—	151
Higher education	500	360,646	436	—	361,582
Economic development	—	3,694	—	—	3,694
Environment & natural resources	14,705	7,045	—	—	21,750
Capital outlay	136,599	222,646	4,876	—	364,121
Debt service:					
Interest and fees	—	29	8	—	37
Debt issuance costs	—	3,233	—	—	3,233
Total expenditures	151,804	597,444	5,320	—	754,568
Excess revenues over (under) expenditures	(86,230)	(596,831)	(5,288)	—	(688,349)
Other Financing Sources (Uses):					
Special indebtedness issued	—	500,000	—	—	500,000
Premium on debt issued	—	32,322	—	—	32,322
Sale of capital assets	1	—	—	—	1
Transfers in	36,169	798	6	—	36,973
Transfers out	(2,483)	(32,888)	(798)	—	(36,169)
Total other financing sources (uses)	33,687	500,232	(792)	—	533,127
Net change in fund balances	(52,543)	(96,599)	(6,080)	—	(155,222)
Fund balances — July 1, as restated	265,322	490,385	17,671	721	774,099
Fund balances — June 30	$ 212,779	$ 393,786	$ 11,591	$ 721	$ 618,877

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Nonmajor permanent Funds

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

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS

June 30, 2011 — Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents	$ —	$ 3,889	$ 3,889
Securities lending collateral	7,773	642	8,415
Receivables, net:			
Accounts receivable	13	5	18
Interest receivable	—	6	6
Restricted/designated cash and cash equivalents	268	3,600	3,868
Restricted investments	87,691	580	88,271
Total Assets	$ 95,745	$ 8,722	$ 104,467
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending	$ 8,103	$ 666	$ 8,769
Total Liabilities	8,103	666	8,769
Fund Balances:			
Nonspendable	80,457	4,131	84,588
Restricted	7,185	126	7,311
Committed	—	3,799	3,799
Total Fund Balances	87,642	8,056	95,698
Total Liabilities and Fund Balances	$ 95,745	$ 8,722	$ 104,467

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

For the Fiscal Year Ended June 30, 2011 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings	$ 4,449	$ 134	$ 4,583
Fees, licenses, and fines	2,497	684	3,181
Contributions, gifts, and grants	7	—	7
Total revenues	6,953	818	7,771
Expenditures:			
Current:			
Higher education	—	27	27
Environment and natural resources	104	80	184
Total expenditures	104	107	211
Excess revenues over (under) expenditures	6,849	711	7,560
Other Financing Sources (Uses):			
Transfers out	(179)	(3)	(182)
Total other financing sources (uses)	(179)	(3)	(182)
Net change in fund balances	6,670	708	7,378
Fund balances — July 1, as restated	80,972	7,348	88,320
Fund balances — June 30	$ 87,642	$ 8,056	$ 95,698

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, 2011

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
Revenues:	**Final Budget**	**Actual**	**Variance with Final Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
Departmental:						
Intra-governmental transactions	$ 1,545	$ 1,560	$ 15	$ 680	$ —	$ (680)
Fees, licenses, and fines	2,891	2,483	(408)	868	679	(189)
Contributions, gifts, and grants	7	7	—	—	—	—
Miscellaneous	3,740	9,916	6,176	288	101	(187)
Total revenues	8,183	13,966	5,783	1,836	780	(1,056)
Expenditures:						
Current:						
Higher education	—	—	—	31	31	—
Health and human services	—	—	—	3	3	—
Environmental and natural resources	4,864	1,823	3,041	165	78	87
Total expenditures	4,864	1,823	3,041	199	112	87
Excess revenues over (under) expenditures	$ 3,319	12,143	$ 8,824	$ 1,637	668	$ (969)
Fund balances (budgetary basis) at July 1, 2010		76,384			7,401	
Fund balances (budgetary basis) at June 30, 2011		$ 88,527			$ 8,069	

Exhibit C-10

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
$ 2,225	$ 1,560	$ (665)
3,759	3,162	(597)
7	7	—
4,028	10,017	5,989
10,019	14,746	4,727
31	31	—
3	3	—
5,029	1,901	3,128
5,063	1,935	3,128
$ 4,956	12,811	$ 7,855
	83,785	
	$ 96,596	

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PROPRIETARY FUNDS

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Nonmajor Enterprise Funds

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

The following activities are included in the nonmajor enterprise funds:

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

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2011

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Assets						
Current Assets:						
Cash and cash equivalents	$ 12,273	$ 1,449	$ 2,142	$ 771	$ 5,606	$ 887
Investments	67,927	—	—	—	15,665	—
Securities lending collateral	6,995	—	125	—	1,809	73
Receivables:						
Accounts receivable, net	—	195	54	—	—	4
Interest receivable	11	—	—	—	3	—
Premiums receivable	1,059	—	—	—	16	—
Notes Receivable	—	—	—	—	—	—
Inventories	—	127	269	10	—	32
Prepaid items	2,508	—	262	—	483	—
Restricted cash and cash equivalents	—	—	98	—	—	—
Restricted investments	—	—	1,910	—	—	—
Total current assets	90,773	1,771	4,860	781	23,582	996
Noncurrent Assets:						
Investments	—	—	2,935	—	—	—
Notes Receivable	—	—	—	—	—	—
Capital assets-nondepreciable	—	1,379	426	1,087	—	—
Capital assets-depreciable, net	—	6,156	2,261	4,824	—	159
Total noncurrent assets	—	7,535	5,622	5,911	—	159
Total Assets	90,773	9,306	10,482	6,692	23,582	1,155
Liabilities						
Current Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	10	76	74	19	—	13
Accrued payroll	—	52	44	2	—	2
Claims payable	15,039	—	—	—	18,113	—
Obligations under securities lending	7,330	—	134	—	1,860	50
Due to other funds	2	9	—	1	—	11
Due to component units	—	—	—	—	—	—
Unearned revenue	3,708	580	7	—	3,283	—
Deposits payable	—	19	75	—	—	—
Notes payable	—	—	—	—	—	—
Compensated absences	6	20	8	5	—	141
Total current liabilities	26,095	756	342	27	23,256	217
Noncurrent Liabilities:						
Notes payable	—	—	—	—	—	—
Compensated absences	76	269	82	76	—	1,381
Total noncurrent liabilities	76	269	82	76	—	1,381
Total Liabilities	26,171	1,025	424	103	23,256	1,598
Net Assets						
Invested in capital assets, net of related debt	—	7,535	2,687	5,911	—	159
Restricted for:						
Capital outlay	—	—	1,933	—	—	—
Other purposes	—	—	—	—	—	—
Unrestricted	64,602	746	5,438	678	326	(602)
Total Net Assets	$ 64,602	$ 8,281	$ 10,058	$ 6,589	$ 326	$ (443)

Exhibit D-1

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ 7,516	$ 1,002	$ 8,728	$ 874	$ 41,248
—	—	27,353	—	110,945
—	—	54	2	9,058
962	66	83	62	1,426
—	—	64	—	78
—	—	—	—	1,075
—	—	7	—	7
—	15	29	33	515
—	—	283	—	3,536
—	—	—	—	98
—	—	—	—	1,910
8,478	1,083	36,601	971	169,896
—	—	—	—	2,935
—	—	75	—	75
—	550	4,011	339	7,792
99	2,540	16,838	7,569	40,446
99	3,090	20,924	7,908	51,248
8,577	4,173	57,525	8,879	221,144
181	25	1,359	34	1,791
—	1	8	11	120
—	—	—	—	33,152
—	—	57	2	9,433
27	22	—	4	76
6,059	—	—	—	6,059
—	—	16,964	84	24,626
—	—	—	—	94
—	—	342	—	342
95	24	97	21	417
6,362	72	18,827	156	76,110
—	—	4,092	—	4,092
929	237	1,171	225	4,446
929	237	5,263	225	8,538
7,291	309	24,090	381	84,648
99	3,090	16,441	7,908	43,830
—	—	—	—	1,933
—	—	1,198	—	1,198
1,187	774	15,796	590	89,535
$ 1,286	$ 3,864	$ 33,435	$ 8,498	$ 136,496

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

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Operating Revenues:						
Sales and services	$ —	$ 236	$ 788	$ 17	$ —	$ 17
Rental and lease earnings	—	5,095	72	580	—	—
Fees, licenses, and fines	—	9,565	2,129	1,129	—	11,083
Insurance premiums	12,688	—	—	—	3,358	—
Miscellaneous	—	19	260	—	—	112
Total operating revenues	12,688	14,915	3,249	1,726	3,358	11,212
Operating Expenses:						
Personal services	617	5,590	1,384	848	—	12,443
Supplies and materials	2	905	73	81	—	24
Services	42	5,145	938	367	686	479
Cost of goods sold	—	—	313	—	—	—
Depreciation/amortization	—	621	110	315	—	5
Claims	20,396	38	—	—	10,621	—
Insurance and bonding	3,576	175	19	45	914	1
Other	5	1,131	251	14	—	946
Total operating expenses	24,638	13,605	3,088	1,670	12,221	13,898
Operating income (loss)	(11,950)	1,310	161	56	(8,863)	(2,686)
Nonoperating Revenues (Expenses):						
Noncapital grants	—	—	—	—	—	421
Noncapital gifts	—	329	—	—	—	—
Investment earnings (loss)	3,569	—	305	—	945	11
Interest and fees	—	—	—	—	—	—
Grants, aid and subsidies	—	10	—	—	—	—
Gain (loss) on sale of equipment	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	139
Miscellaneous	(21)	14	—	7	(5)	—
Total nonoperating revenues (expenses)	3,548	353	305	7	940	571
Income (loss) before contributions and transfers	(8,402)	1,663	466	63	(7,923)	(2,115)
Capital contributions	—	—	57	—	—	—
Transfers in	—	—	—	—	1,546	—
Transfers out	(217)	(3,618)	—	(802)	—	(283)
Change in net assets	(8,619)	(1,955)	523	(739)	(6,377)	(2,398)
Net assets — July 1, as restated	73,221	10,236	9,535	7,328	6,703	1,955
Net assets — June 30	$ 64,602	$ 8,281	$ 10,058	$ 6,589	$ 326	$ (443)

Exhibit D-2

	State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
	$ —	$ 2	$ 14	$ 142	$ 1,216
	—	—	—	850	6,597
	25,330	9,653	32,539	2,778	94,206
	—	—	—	—	16,046
	843	91	324	—	1,649
	26,173	9,746	32,877	3,770	119,714
	10,582	2,407	22,788	2,502	59,161
	27	22	953	238	2,325
	2,753	5,921	6,171	840	23,342
	—	—	—	87	400
	4	112	1,323	236	2,726
	—	—	65	—	31,120
	1	—	33	45	4,809
	4,336	109	928	442	8,162
	17,703	8,571	32,261	4,390	132,045
	8,470	1,175	616	(620)	(12,331)
	—	—	—	—	421
	—	—	—	66	395
	—	—	594	—	5,424
	—	—	(158)	—	(158)
	(6,060)	—	—	—	(6,050)
	—	—	2	—	2
	—	—	—	—	139
	—	—	(1)	7	1
	(6,060)	—	437	73	174
	2,410	1,175	1,053	(547)	(12,157)
	—	—	—	—	57
	—	—	—	—	1,546
	(150)	(370)	—	(649)	(6,089)
	2,260	805	1,053	(1,196)	(16,643)
	(974)	3,059	32,382	9,694	153,139
	$ 1,286	$ 3,864	$ 33,435	$ 8,498	$ 136,496

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Cash Flows from Operating Activities:						
Receipts from customers	$ 12,371	$ 14,601	$ 3,212	$ 1,727	$ 4,605	$ 14,048
Payments to suppliers	(3,787)	(6,368)	(1,620)	—	(1,894)	(903)
Payments to employees	(634)	(5,584)	(1,359)	(853)	—	(12,422)
Payments for prizes, benefits, and claims	(5,888)	(49)	—	(514)	(8,151)	—
Other receipts	—	15	—	8	—	112
Other payments	—	(951)	—	(7)	—	(580)
Net cash flows provided (used) by operating activities	2,062	1,664	233	361	(5,440)	255
Cash Provided From (Used For) Noncapital Financing Activities:						
Grant receipts	—	10	—	—	—	421
Federal recovery funds	—	—	—	—	—	139
Transfers from other funds	—	—	—	—	1,546	—
Transfers to other funds	(217)	(3,618)	—	(802)	—	(283)
Gifts	—	329	—	—	—	—
Total cash provided from (used for) noncapital financing activities	(217)	(3,279)	—	(802)	1,546	277
Cash Provided From (Used For) Capital and Related Financing Activities:						
Acquisition and construction of capital assets	—	(240)	(256)	(61)	—	(46)
Proceeds from the sale of capital assets	—	—	—	—	—	—
Capital contributions	—	—	58	—	—	—
Principal paid on capital debt	—	—	—	—	—	—
Interest paid on capital debt	—	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities	—	(240)	(198)	(61)	—	(46)
Cash Provided From (Used For) Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	300	—	—	—
Purchase of non-State Treasurer investments	—	—	(100)	—	—	—
Purchase into State Treasurer investment pool	(10,000)	—	—	—	—	—
Redemptions from State Treasurer investment pool	—	—	—	—	4,000	—
Investment earnings (loss)	231	—	100	—	37	14
Total cash provided from (used for) investment activities	(9,769)	—	300	—	4,037	14
Net increase (decrease) in cash and cash equivalents	(7,924)	(1,855)	335	(502)	143	500
Cash and cash equivalents at July 1, as restated	20,197	3,304	1,905	1,273	5,463	387
Cash and cash equivalents at June 30	$ 12,273	$ 1,449	$ 2,240	$ 771	$ 5,606	$ 887
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:						
Operating income (loss)	$ (11,950)	$ 1,310	$ 161	$ 56	$ (8,863)	$ (2,686)
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation/amortization	—	621	110	315	—	5
Restatements and adjustments	—	—	—	—	166	—
Nonoperating miscellaneous income (expense)	—	14	—	7	—	—
(Increases) decreases in assets:						
Receivables	1,318	(92)	(39)	—	(7)	2,948
Inventories	—	(7)	(8)	1	—	16
Prepaid items	86	—	(127)	—	(461)	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities	14,262	46	80	(16)	2,470	(41)
Due to other funds	(1)	(1)	—	(1)	—	(6)
Compensated absences	(18)	3	6	(1)	—	19
Unearned revenue	(1,635)	(235)	1	—	1,255	—
Deposits payable	—	5	49	—	—	—
Total cash provided from (used for) operations	$ 2,062	$ 1,664	$ 233	$ 361	$ (5,440)	$ 255
Noncash Investing, Capital, and Financing Activities						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 3,020	$ —	$ —	$ —	$ 1,088	$ —
Capital asset writeoff	—	—	46	—	—	—
Assets acquired through the assumption of a liability	6,996	—	—	—	1,809	73
Increase in payables related to nonoperating expenses	—	—	—	—	—	—
Change in fair value of investments	(164)	—	238	—	(318)	23

Exhibit D-3

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ 24,408	$ 9,673	$ 33,015	$ 3,752	$ 121,412
(3,074)	(6,925)	—	(1,261)	(25,832)
(10,510)	(2,428)	(19,535)	(2,501)	(55,826)
—	—	—	—	(14,602)
843	91	143	—	1,212
(4,043)	(49)	(11,502)	(390)	(17,522)
7,624	362	2,121	(400)	8,842
—	—	—	—	431
—	—	—	—	139
—	—	—	—	1,546
(150)	(370)	—	(649)	(6,089)
—	—	—	66	395
(150)	(370)	—	(583)	(3,578)
(16)	—	(899)	(37)	(1,555)
—	—	3	—	3
—	—	—	—	58
—	—	(1,902)	—	(1,902)
—	—	(44)	—	(44)
(16)	—	(2,842)	(37)	(3,440)
—	—	9,527	—	9,827
—	—	(9,906)	—	(10,006)
—	—	—	—	(10,000)
—	—	—	—	4,000
—	—	441	—	823
—	—	62	—	(5,356)
7,458	(8)	(659)	(1,020)	(3,532)
58	1,010	9,387	1,894	44,878
$ 7,516	$ 1,002	$ 8,728	$ 874	$ 41,346
$ 8,470	$ 1,175	$ 616	$ (620)	$ (12,331)
4	112	1,323	236	2,726
—	—	—	—	166
—	—	12	7	40
(922)	19	(45)	(41)	3,139
—	22	14	—	38
—	—	(12)	—	(514)
10	(941)	(111)	8	15,767
(10)	(5)	—	(2)	(26)
72	(20)	16	(4)	73
—	—	308	16	(290)
—	—	—	—	54
$ 7,624	$ 362	$ 2,121	$ (400)	$ 8,842
$ —	$ —	$ —	$ —	$ 4,108
—	—	—	—	46
—	—	53	1	8,932
6,059	—	—	—	6,059
—	—	400	—	179

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Internal Service Funds

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

The following activities are included in the internal service funds:

Office of the State Controller:
Workers' Compensation Program

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

Office of the Governor:
Computing Services
State Telecommunications Services

Department of Insurance:
State Property Fire Insurance

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2011

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Assets					
Current Assets:					
Cash and cash equivalents	$ 2,608	$ 30,398	$ 18,199	$ —	$ 901
Investments	—	25,330	—	—	—
Securities lending collateral	—	4,862	—	—	—
Receivables:					
Accounts receivable, net	1,408	—	1,414	382	1,979
Intergovernmental receivable	—	—	—	—	—
Interest receivable	—	26	—	—	—
Premiums receivable	—	54	—	—	—
Due from other funds	3,089	—	3,596	17	64
Due from component units	—	—	377	—	—
Inventories	—	—	128	206	—
Prepaid items	—	—	—	—	—
Total current assets	7,105	60,670	23,714	605	2,944
Noncurrent Assets:					
Capital assets-nondepreciable	—	—	288	—	—
Capital assets-depreciable, net	—	—	36,604	435	—
Total noncurrent assets	—	—	36,892	435	—
Total Assets	7,105	60,670	60,606	1,040	2,944
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	—	5,814	1,053	35	1
Accrued payroll	—	—	2	10	1,138
Claims payable	—	1,484	—	—	—
Obligations under securities lending	—	5,040	—	—	—
Interest payable	—	—	—	—	—
Due to other funds	—	—	22	489	2
Unearned revenue	—	7,434	—	—	—
Capital leases payable	—	—	—	—	—
Compensated absences	—	18	16	22	5
Total current liabilities	—	19,790	1,093	556	1,146
Noncurrent Liabilities:					
Accounts payable	—	—	—	—	—
Capital leases payable	—	—	—	—	—
Compensated absences	—	243	125	174	40
Total noncurrent liabilities	—	243	125	174	40
Total Liabilities	—	20,033	1,218	730	1,186
Net Assets					
Invested in capital assets, net of related debt	—	—	36,892	435	—
Unrestricted	7,105	40,637	22,496	(125)	1,758
Total Net Assets	$ 7,105	$ 40,637	$ 59,388	$ 310	$ 1,758

Exhibit E-1

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 21,764	$ 10,213	$ 524	$ 84,607
—	—	—	25,330
—	—	—	4,862
3,361	6,105	17	14,666
8	—	—	8
—	—	—	26
—	—	—	54
11,358	3,829	2	21,955
14	233	—	624
13	—	—	347
1,276	1	—	1,277
37,794	20,381	543	153,756
3,089	—	19	3,396
58,500	5,360	99	100,998
61,589	5,360	118	104,394
99,383	25,741	661	258,150
351	988	781	9,023
—	—	—	1,150
—	—	—	1,484
—	—	—	5,040
—	98	—	98
85	102	65	765
454	—	—	7,888
—	667	—	667
319	74	13	467
1,209	1,929	859	26,582
—	597	—	597
—	693	—	693
4,104	952	107	5,745
4,104	2,242	107	7,035
5,313	4,171	966	33,617
61,589	4,000	118	103,034
32,481	17,570	(423)	121,499
$ 94,070	$ 21,570	$ (305)	$ 224,533

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

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Operating Revenues:					
Federal funds	$ —	$ —	$ —	$ —	$ —
Sales and services	61,369	—	40,978	3,969	18,139
Rental and lease earnings	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—
Insurance premiums	—	17,713	—	—	—
Miscellaneous	—	—	67	—	—
Total operating revenues	61,369	17,713	41,045	3,969	18,139
Operating Expenses:					
Personal services	—	1,791	1,972	2,935	17,839
Supplies and materials	—	2	18,071	39	1
Services	61,642	122	2,738	441	116
Cost of goods sold	—	—	349	—	—
Depreciation/amortization	—	—	14,170	57	—
Claims	—	74	—	—	—
Insurance and bonding	—	14,695	1,353	1	—
Other	—	71	25	55	26
Total operating expenses	61,642	16,755	38,678	3,528	17,982
Operating income (loss)	(273)	958	2,367	441	157
Nonoperating Revenues (Expenses):					
Noncapital grants	—	—	—	—	—
Noncapital gifts, net	—	—	—	—	—
Investment earnings	—	1,857	—	—	—
Insurance recoveries	—	—	121	—	—
Gain (loss) on sale of equipment	—	—	284	(77)	—
Miscellaneous	—	(16)	46	—	—
Total nonoperating revenues (expenses)	—	1,841	451	(77)	—
Income (loss) before contributions and transfers	(273)	2,799	2,818	364	157
Capital contributions	—	—	—	—	—
Transfers in	1,156	—	54	—	—
Transfers out	—	(2,828)	(46,088)	—	—
Change in net assets	883	(29)	(43,216)	364	157
Net assets — July 1, as restated	6,222	40,666	102,604	(54)	1,601
Net assets — June 30	$ 7,105	$ 40,637	$ 59,388	$ 310	$ 1,758

Exhibit E-2

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 72	$ —	$ —	$ 72
108,726	81,604	1,665	316,450
—	—	21	21
117	—	34	151
—	—	—	17,713
—	88	168	323
108,915	81,692	1,888	334,730
38,144	11,525	1,623	75,829
169	15	46	18,343
5,889	54,009	274	125,231
—	—	243	592
9,039	2,540	13	25,819
—	—	—	74
131	57	20	16,257
46,910	10,206	32	57,325
100,282	78,352	2,251	319,470
8,633	3,340	(363)	15,260
340	—	—	340
3	—	—	3
—	—	—	1,857
—	—	—	121
7	—	—	214
3	119	—	152
353	119	—	2,687
8,986	3,459	(363)	17,947
—	4	48	52
8,985	4,410	—	14,605
(16,874)	(10,642)	—	(76,432)
1,097	(2,769)	(315)	(43,828)
92,973	24,339	10	268,361
$ 94,070	$ 21,570	$ (305)	$ 224,533

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Cash Flows From Operating Activities:					
Receipts from customers	$ 8,318	$ 10,906	$ 4,262	$ 656	$ —
Receipts from federal agencies	—	—	—	—	—
Receipts from other funds	54,494	8,581	38,626	3,200	18,167
Payments to suppliers	(61,642)	(14,955)	(10,884)	(215)	(23)
Payments to employees	—	(1,799)	(1,974)	(2,940)	(17,421)
Payments for benefits and claims	—	(323)	—	—	—
Payments to other funds	—	(44)	(11,485)	(569)	(94)
Other receipts	—	—	113	—	—
Other payments	—	—	(21)	(6)	(26)
Net cash flows provided (used) by operating activities	1,170	2,366	18,637	126	603
Cash Provided From (Used For) Noncapital Financing Activities:					
Grant receipts	—	—	—	—	—
Principal payments on borrowing	—	—	—	—	—
Interest expense and issuance cost	—	—	—	—	—
Transfers from other funds	1,156	—	—	—	—
Transfers to other funds	—	(2,828)	(46,088)	—	—
Gifts	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities	1,156	(2,828)	(46,088)	—	—
Cash Provided From (Used For) Capital and Related Financing Activities:					
Acquisition and construction of capital assets	—	—	(2,131)	(126)	—
Proceeds from the sale of capital assets	—	—	804	—	—
Principal paid on capital debt	—	—	—	—	—
Interest paid on capital debt	—	—	—	—	—
Insurance recoveries	—	—	121	—	—
Total cash provided from (used for) capital and related financing activities	—	—	(1,206)	(126)	—
Cash Provided From (Used For) Investment Activities:					
Investment earnings	—	359	—	—	—
Total cash provided from (used for) investment activities	—	359	—	—	—
Net increase (decrease) in cash and cash equivalents	2,326	(103)	(28,657)	—	603
Cash and cash equivalents at July 1	282	30,501	46,856	—	298
Cash and cash equivalents at June 30	$ 2,608	$ 30,398	$ 18,199	$ —	$ 901
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ (273)	$ 958	$ 2,367	$ 441	$ 157
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	—	14,170	57	—
Nonoperating miscellaneous income	—	—	46	—	—
(Increases) decreases in assets:					
Receivables	910	2,337	244	(113)	7
Due from other funds	533	—	1,526	1	21
Due from component units	—	—	139	—	—
Inventories	—	—	(44)	(194)	—
Prepaid items	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	—	(358)	200	3	409
Due to other funds	—	—	(9)	(67)	—
Compensated absences	—	(9)	(2)	(2)	9
Unearned revenue	—	(562)	—	—	—
Total cash provided from (used for) operations	$ 1,170	$ 2,366	$ 18,637	$ 126	$ 603
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ 1,441	$ —	$ —	$ —
Donated or transferred assets	—	—	54	—	—
Assets acquired through the assumption of a liability	—	4,862	—	—	—
Change in fair value of investments	—	(257)	—	—	—

Exhibit E-3

	Computing Services	State Telecommunications Services	Surplus Property	Totals
	$ 1,188	$ 18,632	$ 717	$ 44,679
	72	—	—	72
	104,491	62,790	1,043	291,392
	(51,043)	(62,045)	(409)	(201,216)
	(38,358)	(11,122)	(1,623)	(75,237)
	—	—	—	(323)
	(1,965)	(1,664)	(382)	(16,203)
	3	207	167	490
	(409)	(392)	(9)	(863)
	13,979	6,406	(496)	42,791
	340	—	—	340
	—	(505)	—	(505)
	—	(64)	—	(64)
	8,985	4,410	—	14,551
	(16,874)	(10,642)	—	(76,432)
	3	—	—	3
	(7,546)	(6,801)	—	(62,107)
	(9,237)	(1,982)	—	(13,476)
	7	—	—	811
	—	(640)	—	(640)
	—	(81)	—	(81)
	—	—	—	121
	(9,230)	(2,703)	—	(13,265)
	—	—	—	359
	—	—	—	359
	(2,797)	(3,098)	(496)	(32,222)
	24,561	13,311	1,020	116,829
	$ 21,764	$ 10,213	$ 524	$ 84,607
	$ 8,633	$ 3,340	$ (363)	$ 15,260
	9,039	2,540	13	25,819
	3	119	—	168
	(2,994)	(1,075)	41	(643)
	(574)	782	(1)	2,288
	22	110	—	271
	14	—	—	(224)
	(146)	—	—	(146)
	(185)	179	(121)	127
	(2)	8	(65)	(135)
	(215)	403	—	184
	384	—	—	(178)
	$ 13,979	$ 6,406	$ (496)	$ 42,791
	$ —	$ —	$ —	$ 1,441
	—	4	48	106
	—	—	—	4,862
	—	—	—	(257)

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FIDUCIARY FUNDS

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INVESTMENT TRUST FUNDS

Investment trust funds account for the external portion of the Investment Pool and other investments that are legally separate entities and are not part of the State reporting entity.

The following activities are included in the investment trust funds:

State Treasurer Investment Pool
Public Hospitals Investment Account

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS

June 30, 2011 — *Exhibit F-1*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Assets			
Cash and cash equivalents	$ 5,686	$ —	$ 5,686
Investments:			
State Treasurer investment pool	811,231	70,214	881,445
Securities lending collateral	63,370	9	63,379
Total Assets	880,287	70,223	950,510
Liabilities			
Accounts payable and accrued liabilities:			
Accounts payable	4,887	—	4,887
Obligations under securities lending	66,488	9	66,497
Total Liabilities	71,375	9	71,384
Net Assets			
Held in trust for:			
Pool participants	808,912	70,214	879,126
Total Net Assets	$ 808,912	$ 70,214	$ 879,126

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS

For the Fiscal Year Ended June 30, 2011 — *Exhibit F-2*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Additions:			
Investment Income:			
Investment earnings	$ 17,066	$ 17,586	$ 34,652
Less investment expenses	(298)	(157)	(455)
Net investment income	16,768	17,429	34,197
Pool share transactions:			
Reinvestment of dividends	16,768	17,429	34,197
Net share purchases/(redemptions)	149,945	—	149,945
Net pool share transactions	166,713	17,429	184,142
Total additions	183,481	34,858	218,339
Deductions:			
Distributions paid and payable	16,768	17,429	34,197
Total deductions	16,768	17,429	34,197
Change in net assets	166,713	17,429	184,142
Net assets — July 1	642,199	52,785	694,984
Net assets — June 30	$ 808,912	$ 70,214	$ 879,126

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Private Purpose Trust Funds

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

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

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

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS

June 30, 2011 *Exhibit F-3*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Assets				
Cash and cash equivalents	$ 154	$ 108,610	$ 4,532	$ 113,296
Investments:				
U.S. government securities	—	753	—	753
Certificates of deposit	—	60,502	—	60,502
State Treasurer Investment Pool	—	—	8,800	8,800
Securities lending collateral	13	—	378	391
Receivables:				
Interest receivable	—	—	4	4
Sureties	876,970	—	—	876,970
Total Assets	877,137	169,865	13,714	1,060,716
Liabilities				
Obligations under securities lending	13	—	403	416
Total Liabilities	13	—	403	416
Net Assets				
Held in trust for:				
Individuals, organizations, and other governments	877,124	169,865	13,311	1,060,300
Total Net Assets	$ 877,124	$ 169,865	$ 13,311	$ 1,060,300

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

For the Fiscal Year Ended June 30, 2011 *Exhibit F-4*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Additions:				
Contributions:				
Trustee deposits	$ 12,452	$ 112,808	$ 11	$ 125,271
Total contributions	12,452	112,808	11	125,271
Investment Income:				
Investment earnings	3	3,489	45	3,537
Less investment expenses	—	—	(2)	(2)
Net investment income	3	3,489	43	3,535
Total additions	12,455	116,297	54	128,806
Deductions:				
Payments in accordance with trust arrangements	28,816	114,283	—	143,099
Total deductions	28,816	114,283	—	143,099
Change in net assets	(16,361)	2,014	54	(14,293)
Net assets — July 1	893,485	167,851	13,257	1,074,593
Net assets — June 30	$ 877,124	$ 169,865	$ 13,311	$ 1,060,300

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AGENCY FUNDS

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

The following activities are included in the agency funds:

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

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	Balance, July 1, 2010 (as restated)	Additions	Deductions	Balance, June 30, 2011
Local Sales Tax Collections				
Assets				
Cash and cash equivalents	$ 342,037	$ 2,063,767	$ (2,056,610)	$ 349,194
Receivables:				
Taxes receivable	96,600	123,800	(96,600)	123,800
Due from other funds	17,773	20,678	(17,773)	20,678
Total Assets	$ 456,410	$ 2,208,245	$ (2,170,983)	$ 493,672
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 456,410	$ 2,208,245	$ (2,170,983)	$ 493,672
Total Liabilities	$ 456,410	$ 2,208,245	$ (2,170,983)	$ 493,672
Clerks of Court				
Assets				
Cash and cash equivalents	$ 93,308	$ 1,611,915	$ (1,612,266)	$ 92,957
Receivables:				
Accounts receivable	671	5,922	(5,860)	733
Sureties	95,534	41,335	(41,695)	95,174
Total Assets	$ 189,513	$ 1,659,172	$ (1,659,821)	$ 188,864
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 5,707	$ 118,401	$ (118,754)	$ 5,354
Funds held for others	183,806	524,699	(524,995)	183,510
Total Liabilities	$ 189,513	$ 643,100	$ (643,749)	$ 188,864
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents	$ 3,417,936	$ 230,595	$ —	$ 3,648,531
Investments:				
State Treasurer investment pool	24,009	12,255	—	36,264
Securities lending collateral	680,085	946	(367,107)	313,924
Total Assets	$ 4,122,030	$ 243,796	$ (367,107)	$ 3,998,719
Liabilities				
Obligations under securities lending	$ 701,309	$ —	$ (373,509)	$ 327,800
Funds held for others	3,420,721	265,020	(14,822)	3,670,919
Total Liabilities	$ 4,122,030	$ 265,020	$ (388,331)	$ 3,998,719
Insurers in Receivership				
Assets				
Cash and cash equivalents	$ 104,315	$ —	$ (1,130)	$ 103,185
Investments:				
Corporate bonds	3,905	—	(1,327)	2,578
Corporate stocks	2	—	(2)	—
Receivables:				
Accounts receivable	8,490	1,138	—	9,628
Total Assets	$ 116,712	$ 1,138	$ (2,459)	$ 115,391
Liabilities				
Funds held for others	$ 116,712	$ 1,138	$ (2,459)	$ 115,391
Total Liabilities	$ 116,712	$ 1,138	$ (2,459)	$ 115,391

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2011 *Exhibit F-5*

(Dollars in Thousands)

	Balance, July 1, 2010 (as restated)	Additions	Deductions	Balance, June 30, 2011
Departmental Funds				
Assets				
Cash and cash equivalents	$ 32,567	$ 1,330,621	$ (1,331,742)	$ 31,446
Investments:				
Certificates of deposit	325	100	(100)	325
Securities lending collateral	4,553	7	(2,084)	2,476
Receivables:				
Accounts receivable	1,070	2,060	(3)	3,127
Due from other funds	2,239	—	(2,239)	—
Due from component units	1,720	—	(1,720)	—
Total Assets	$ 42,474	$ 1,332,788	$ (1,337,888)	$ 37,374
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 585	$ 7,434	$ (7,475)	$ 544
Intergovernmental payable	11,123	304,360	(312,360)	3,123
Obligations under securities lending	4,690	—	(2,098)	2,592
Deposits payable	1,845	4,615	(4,327)	2,133
Funds held for others	24,231	128,534	(123,783)	28,982
Total Liabilities	$ 42,474	$ 444,943	$ (450,043)	$ 37,374
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 3,990,163	$ 5,236,898	$ (5,001,748)	$ 4,225,313
Investments:				
Corporate bonds	3,905	—	(1,327)	2,578
Corporate stocks	2	—	(2)	—
Certificates of deposit	325	100	(100)	325
State Treasurer investment pool	24,009	12,255	—	36,264
Securities lending collateral	684,638	953	(369,191)	316,400
Receivables:				
Taxes receivable	96,600	123,800	(96,600)	123,800
Accounts receivable	10,231	9,120	(5,863)	13,488
Due from other funds	20,012	20,678	(20,012)	20,678
Due from component units	1,720	—	(1,720)	—
Sureties	95,534	41,335	(41,695)	95,174
Total Assets	$ 4,927,139	$ 5,445,139	$ (5,538,258)	$ 4,834,020
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 585	$ 7,434	$ (7,475)	$ 544
Intergovernmental payable	473,240	2,631,006	(2,602,097)	502,149
Obligations under securities lending	705,999	—	(375,607)	330,392
Deposits payable	1,845	4,615	(4,327)	2,133
Funds held for others	3,745,470	919,391	(666,059)	3,998,802
Total Liabilities	$ 4,927,139	$ 3,562,446	$ (3,655,565)	$ 4,834,020

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COMPONENT UNITS

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Component Units – Discretely Presented

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 component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on the State. The State has applied the criteria outlined in GASB Statement No. 14, The Financial Reporting Entity, in determining financial accountability. These component units are included in the financial reporting entity because of the significance of their operational or financial relationships with the State.

Nonmajor component units are comprised of the following entities:

N.C. State Ports Authority
N.C. Agricultural Finance Authority
N.C. Global TransPark Authority
N.C. Biotechnology Center
N.C. Partnership for Children, Inc.
Rural Economic Development Center
Regional Economic Development Commissions
North Carolina Railroad Company
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 ASSETS
NONMAJOR COMPONENT UNITS

June 30, 2011

(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Biotechnology Center	N.C. Partnership for Children, Inc.	Rural Economic Development Center
Assets						
Cash and cash equivalents	$ 2,392	$ 13,228	$ 9,966	$ 27,534	$ 2,988	$ 111,166
Investments	9,646	—	—	585	326	82,731
Receivables, net	5,929	352	265	1,663	517	1,086
Due from component units	—	—	—	403	—	659
Inventories	605	1	—	—	—	—
Prepaid items	1,216	—	—	172	105	78
Notes receivable, net	—	7,445	—	2,836	—	843
Deferred charges	1,112	—	—	—	—	—
Restricted/designated cash and cash equiv	4,511	—	678	—	316	—
Restricted investments	—	—	—	—	762	—
Deferred outflow of resources	229	—	—	—	—	—
Capital assets-nondepreciable	74,276	—	29,194	—	—	—
Capital assets-depreciable, net	225,409	34	228,753	13,220	116	3,464
Total Assets	325,325	21,060	268,856	46,413	5,130	200,027
Liabilities						
Accounts payable and accrued liabilities	2,796	—	667	7,938	765	993
Interest payable	880	—	103	—	—	—
Short-term debt	400	—	—	—	—	—
Due to primary government	12	1	1,436	—	—	8
Unearned revenue	127	—	2	—	427	15,504
Advance from primary government	—	—	21,742	—	—	—
Deposits payable	—	—	3	—	—	—
Funds held for others	—	3,531	28	—	66	—
Hedging derivatives liability	229	—	—	—	—	—
Long-term liabilities:						
Due within one year	2,304	1	237	1,000	—	4
Due in more than one year	100,311	20	4,967	4,000	—	134
Total Liabilities	107,059	3,553	29,185	12,938	1,258	16,643
Net Assets						
Invested in capital assets, net of related debt	198,134	34	231,480	8,220	116	3,460
Restricted for:						
Expendable:						
Health and human services	—	—	—	—	1,067	—
Economic development	4,511	—	678	811	—	173,925
Unrestricted	15,621	17,473	7,513	24,444	2,689	5,999
Total Net Assets	$ 218,266	$ 17,507	$ 239,671	$ 33,475	$ 3,872	$ 183,384

Exhibit G-1

Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Health Insurance Risk Pool	Total
$ 2,278	$ 2,007	$ 8,876	$ 180,435
827	—	34,834	128,949
210	211	2,720	12,953
173	—	—	1,235
21	—	—	627
43	40	248	1,902
538	—	—	11,662
—	—	—	1,112
—	53,656	—	59,161
—	—	—	762
—	—	—	229
67	12,959	—	116,496
865	83,671	6	555,538
5,022	152,544	46,684	1,071,061
68	1,943	7,103	22,273
—	—	—	983
—	—	—	400
—	—	—	1,457
147	—	2,249	18,456
—	—	—	21,742
—	24	—	27
—	—	4	3,629
—	—	—	229
27	—	—	3,573
28	—	—	109,460
270	1,967	9,356	182,229
932	96,629	6	539,011
—	—	—	1,067
1,106	53,640	—	234,671
2,714	308	37,322	114,083
$ 4,752	$ 150,577	$ 37,328	$ 888,832

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2011

(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Biotechnology Center	N.C. Partnership for Children, Inc.	Rural Economic Development Center
Total expenses	$ 41,270	$ 733	$ 10,387	$ 19,568	$ 122,141	$ 77,847
Program revenues:						
Charges for services	37,319	397	1,812	197	83	—
Operating grants and contributions:						
State aid - program	—	—	—	—	114,952	28,669
Other operating grants and contributions	71	104	122	4,026	944	6,644
Capital grants and contributions:						
State capital aid	4	—	21,044	—	—	—
Other capital grants and contributions	419	—	16,521	—	—	—
Net program (expense) revenue	(3,457)	(232)	29,112	(15,345)	(6,162)	(42,534)
Non-tax general revenues:						
State aid - general	—	—	1,280	18,819	5,555	1,823
Miscellaneous	—	—	—	547	252	571
Total non-tax general revenues	—	—	1,280	19,366	5,807	2,394
Change in net assets	(3,457)	(232)	30,392	4,021	(355)	(40,140)
Net assets — July 1, as restated	221,723	17,739	209,279	29,454	4,227	223,524
Net assets — June 30	$ 218,266	$ 17,507	$ 239,671	$ 33,475	$ 3,872	$ 183,384

Exhibit G-2

Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Health Insurance Risk Pool	Total
$ 4,170	$ 14,974	$ 44,690	$ 335,780
148	15,934	43,141	99,031
—	—	—	143,621
1,270	611	471	14,263
—	8,393	—	29,441
55	—	—	16,995
(2,697)	9,964	(1,078)	(32,429)
2,620	—	6,582	36,679
243	79	—	1,692
2,863	79	6,582	38,371
166	10,043	5,504	5,942
4,586	140,534	31,824	882,890
$ 4,752	$ 150,577	$ 37,328	$ 888,832

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2011 — *Exhibit G-3*

(Dollars in Thousands)

	State Health Plan
Cash Flows from Operating Activities:	
Receipts from customers	$ 2,690,053
Payments to suppliers	(158,563)
Payments to employees	(3,503)
Payments for prizes, benefits, and claims	(2,481,995)
Other payments	(148)
Net cash flows provided (used) by operating activities	45,844
Cash Provided From (Used For) Noncapital Financing Activities:	
Grant receipts	103,395
Principal payments on borrowing	(3,622)
Total cash provided from (used for) noncapital financing activities	99,773
Cash Provided From (Used For) Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(16)
Total cash provided from (used for) capital and related financing activities	(16)
Cash Provided From (Used For) Investment Activities:	
Investment earnings	2,861
Total cash provided from (used for) investment activities	2,861
Net increase (decrease) in cash and cash equivalents	148,462
Cash and cash equivalents at July 1	121,484
Cash and cash equivalents at June 30	$ 269,946
Reconciliation of Operating Income (Loss) to Net Cash Provided From (Used For) Operating Activities:	
Operating income	$ 67,708
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation/amortization	17
(Increases) decreases in assets:	
Receivables	4,366
Increases (decreases) in liabilities:	
Accounts payable and accrued liabilities	976
Due to primary government	2
Compensated absences	37
Unearned revenue	1,850
Medical claims payable	(29,112)
Total cash provided from (used for) operations	$ 45,844

STATISTICAL SECTION

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Index to Statistical Section

This part of the State of North Carolina's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

Contents

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

NET ASSETS BY COMPONENT

For the Fiscal Years 2002-2011
(Dollars in Thousands)

	2011	2010	2009	2008	2007
Governmental activities:					
Invested in capital assets, net of related debt..	$ 37,419,430	$ 35,658,528	$ 34,101,091	$ 30,984,578	$ 29,715,168
Restricted..	729,100	704,715	714,014	877,915	1,094,352
Unrestricted..	(3,783,219)	(4,160,273)	(4,427,748)	(1,856,140)	(993,478)
Total governmental activities net assets [1].........	$ 34,365,311	$ 32,202,970	$ 30,387,357	$ 30,006,353	$ 29,816,042
Business-type activities:					
Invested in capital assets, net of related debt..	$ 294,158	$ 173,375	$ 73,924	$ 32,063	$ 26,673
Restricted..	3,131	1,081,220	1,003,613	1,773,018	1,612,943
Unrestricted..	(767,546)	(1,626,663)	(201,590)	91,219	74,860
Total business-type activities net assets............	$ (470,257)	$ (372,068)	$ 875,947	$ 1,896,300	$ 1,714,476
Primary government:					
Invested in capital assets, net of related debt..	$ 37,713,588	$ 35,831,903	$ 34,175,015	$ 31,016,641	$ 29,741,841
Restricted..	732,231	1,785,935	1,717,627	2,650,933	2,707,295
Unrestricted..	(4,550,765)	(5,786,936)	(4,629,338)	(1,764,921)	(918,618)
Total primary government net assets.................	$ 33,895,054	$ 31,830,902	$ 31,263,304	$ 31,902,653	$ 31,530,518

Note: The State of North Carolina did not begin reporting government-wide statements until implementation of GASB Statement 34 in 2002.

[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

2006	2005	2004	2003	2002
$ 28,052,926	$ 26,434,617	$ 24,706,355	$ 23,449,373	$ 22,025,039
890,602	1,314,397	1,474,405	1,071,626	1,604,772
(1,310,486)	(3,839,972)	(3,199,354)	(2,210,477)	(1,615,102)
$ 27,633,042	$ 23,909,042	$ 22,981,406	$ 22,310,522	$ 22,014,709
$ 26,975	$ 44,007	$ 40,277	$ 38,450	$ 38,267
1,286,477	970,615	665,547	863,426	797,437
75,108	76,988	48,295	56,448	50,479
$ 1,388,560	$ 1,091,610	$ 754,119	$ 958,324	$ 886,183
$ 28,079,901	$ 26,478,624	$ 24,746,632	$ 23,487,823	$ 22,063,306
2,177,079	2,285,012	2,139,952	1,935,052	2,402,209
(1,235,378)	(3,762,984)	(3,151,059)	(2,154,029)	(1,564,623)
$ 29,021,602	$ 25,000,652	$ 23,735,525	$ 23,268,846	$ 22,900,892

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2011
(Dollars in Thousands)

		2011	2010	2009	2008	2007
Expenses						
Governmental activities:						
General government		$ 1,123,257	$ 1,065,584	$ 1,429,407	$ 1,232,088	$ 1,264,132
Primary and secondary education		10,006,402	9,830,183	10,079,691	10,631,920	9,126,169
Higher education		4,308,475	4,232,266	3,951,862	4,207,410	4,500,010
Health and human services		16,837,927	16,762,910	16,172,213	14,951,585	14,117,426
Economic development		744,796	916,224	636,431	746,471	624,106
Environment and natural resources		608,903	526,178	717,666	753,909	672,726
Public safety, corrections, and regulation		2,796,375	2,616,888	2,741,308	2,627,007	2,465,974
Transportation		2,177,142	1,998,234	138,007	1,941,207	2,019,942
Agriculture		114,474	118,847	110,268	119,297	88,970
Interest on long-term debt		307,917	281,058	289,211	304,020	273,123
Total governmental activities expenses		39,025,668	38,348,372	36,266,064	37,514,914	35,152,578
Business-type activities:						
Unemployment Compensation		4,420,762	5,568,561	3,255,448	1,002,866	864,981
N.C. State Lottery	[2]	1,028,536	994,168	877,403	712,718	559,373
EPA Revolving Loan	[4]	42,897	30,940	7,868	12,454	14,228
N.C. Turnpike Authority	[6]	4,940	4,990	3,847	—	—
Regulatory programs	[3]	78,653	67,330	37,644	34,791	31,144
Insurance programs		36,885	13,118	14,986	17,556	23,892
North Carolina State Fair		13,595	12,794	13,803	12,828	11,433
Other business-type activities		9,148	9,563	7,324	6,364	5,686
Total business-type activities expenses		5,635,416	6,701,464	4,218,323	1,799,577	1,510,737
Total primary government expenses		$ 44,661,084	$ 45,049,836	$ 40,484,387	$ 39,314,491	$ 36,663,315
Program Revenues:						
Governmental activities:						
Charges for services:						
Transportation		$ 709,064	$ 705,025	$ 740,353	$ 777,059	$ 782,405
Public safety, corrections, and regulation		542,304	511,912	510,159	501,837	429,824
General government		195,286	356,602	329,507	365,920	480,378
Other activities		631,464	502,204	535,100	536,419	467,769
Operating grants and contributions		15,632,258	15,837,802	14,005,529	12,301,356	12,026,012
Capital grants and contributions		1,198,549	711,433	1,035,742	826,646	758,910
Total governmental activities program revenues		18,908,925	18,624,978	17,156,390	15,309,237	14,945,298
Business-type activities:						
Charges for services:						
Unemployment Compensation		1,294,104	1,045,288	1,076,294	1,091,856	1,099,959
N.C. State Lottery	[2]	1,464,639	1,424,458	1,288,102	1,053,131	866,195
EPA Revolving Loan	[4]	20,388	19,874	17,370	17,297	16,400
Regulatory programs	[3]	80,008	71,355	33,982	37,163	29,347
Insurance programs		16,046	16,320	17,208	16,991	13,901
North Carolina State Fair		14,915	12,639	12,520	15,029	11,617
Other business-type activities		8,745	8,678	8,365	6,498	5,887
Operating grants and contributions		2,998,114	3,251,109	1,110,849	83,695	106,000
Capital grants and contributions		11,687	7,771	41,398	6,589	142
Total business-type activities program revenues		5,908,646	5,857,492	3,606,088	2,328,249	2,149,448
Total primary government program revenues		$ 24,817,571	$ 24,482,470	$ 20,762,478	$ 17,637,486	$ 17,094,746
Net (expense) revenue						
Governmental activities		$ (20,116,743)	$ (19,723,394)	$ (19,109,674)	$ (22,205,677)	$ (20,207,280)
Business-type activities		273,230	(843,972)	(612,235)	528,672	638,711
Total primary government net expense		$ (19,843,513)	$ (20,567,366)	$ (19,721,909)	$ (21,677,005)	$ (19,568,569)

Table 2

2006	2005	2004	2003	2002
$ 1,039,513	$ 917,209	$ 807,248	$ 773,835	$ 874,208
8,215,445	7,699,208	7,223,766	6,865,921	6,802,979
3,472,024	3,576,384	3,140,794	2,814,375	2,519,703
13,491,119	13,375,794	11,729,904	10,614,411	10,376,807
647,434	625,561	536,055	489,062	469,102
676,049	570,241	599,575	537,540	627,369
2,304,900	2,125,385	2,093,404	2,034,225	2,109,487
1,781,865	1,795,490	1,870,578	1,639,866	1,530,870
112,467	81,628	82,394	73,972	121,729
264,287	249,433	191,228	151,258	148,595
32,005,103	31,016,333	28,274,946	25,994,465	25,580,849
849,945	824,934	1,389,266	1,603,796	1,336,718
153,125	—	—	—	—
11,414	7,170	5,342	4,266	—
—	—	—	—	—
28,526	25,974	—	—	—
16,051	13,580	25,237	13,752	—
10,497	10,759	8,956	8,257	—
10,255	9,753	8,821	8,748	25,431
1,079,813	892,170	1,437,622	1,638,819	1,362,149
$ 33,084,916	$ 31,908,503	$ 29,712,568	$ 27,633,284	$ 26,942,998
$ 725,311	$ 588,357	$ 553,229	$ 526,609	$ 524,198
411,188	378,059	371,625	355,793	327,457
339,053	202,514	211,648	162,311	184,982
512,449	503,552	368,588	306,036	276,322
11,503,844	11,380,864	10,108,124	9,043,064	8,787,254
914,090	1,011,451	884,345	527,498	714,084
14,405,935	14,064,797	12,497,559	10,921,311	10,814,297
1,101,357	1,062,549	878,722	646,273	433,364
216,906	—	—	—	—
15,237	14,078	13,876	12,550	—
33,550	32,223	—	—	—
14,860	15,993	13,259	12,076	—
12,581	12,227	11,961	8,343	—
7,973	8,906	9,073	9,275	27,477
64,085	54,760	305,053	504,550	438,760
258	452	892	1,241	1,121
1,466,807	1,201,188	1,232,836	1,194,308	900,722
$ 15,872,742	$ 15,265,985	$ 13,730,395	$ 12,115,619	$ 11,715,019
$ (17,599,168)	$ (16,951,536)	$ (15,777,387)	$ (15,073,154)	$ (14,766,552)
386,994	309,018	(204,786)	(444,511)	(461,427)
$ (17,212,174)	$ (16,642,518)	$ (15,982,173)	$ (15,517,665)	$ (15,227,979)

[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 alsochanged 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 2003 EPA Revolving Loan was classified as Special Revenue Funds.

[5] 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.

[6] 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 ASSETS

For the Fiscal Years 2002-2011
(Dollars in Thousands)

		2011	2010	2009	2008	2007
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Individual income tax	[1]	$ 10,020,535	$ 9,345,441	$ 8,661,565	$ 10,676,156	$ 10,739,562
Corporate income tax		1,132,931	1,252,800	997,206	1,357,670	1,466,148
Sales and use tax		6,172,377	5,916,119	4,911,656	5,159,453	5,108,456
Gasoline tax		1,675,476	1,557,430	1,523,496	1,579,847	1,601,764
Franchise tax		794,091	904,651	799,113	738,741	671,151
Highway use tax		469,811	439,506	440,749	566,132	607,511
Insurance tax		501,032	506,990	500,438	505,936	487,081
Beverage tax		311,809	295,383	263,553	258,193	245,990
Inheritance tax		24,184	71,731	103,811	158,178	162,746
Tobacco products tax	[5]	291,699	278,406	242,071	249,664	241,687
Other tax		301,217	321,945	316,819	339,109	330,888
Tobacco settlement		131,318	145,539	175,838	168,583	144,075
Federal grants not restricted to specific programs		—	—	—	—	—
Unrestricted investment earnings		32,980	28,645	66,863	238,239	211,663
Miscellaneous		45,014	37,253	62,799	49,345	47,015
Contributions to permanent funds		3,188	3,101	3,248	3,894	3,928
Transfers		371,422	434,067	422,399	346,848	312,810
Total governmental activities		22,279,084	21,539,007	19,491,624	22,395,988	22,382,475
Business-type activities:						
Miscellaneous		3	—	—	—	15
Transfers		(371,422)	(434,067)	(422,399)	(346,848)	(312,810)
Total business-type activities		(371,419)	(434,067)	(422,399)	(346,848)	(312,795)
Total primary government		$ 21,907,665	$ 21,104,940	$ 19,069,225	$ 22,049,140	$ 22,069,680
Change in Net Assets						
Governmental activities		$ 2,162,341	$ 1,815,613	$ 381,950	$ 190,311	$ 2,175,195
Business-type activities		(98,189)	(1,278,039)	(1,034,634)	181,824	325,916
Total primary government		$ 2,064,152	$ 537,574	$ (652,684)	$ 372,135	$ 2,501,111

Note: The State of North Carolina did not begin reporting government-wide statements until implementation of GASB Statement 34 in 2002.

Table 2

2006	2005	2004	2003	2002
$ 9,336,745	$ 8,244,275	$ 7,407,455	$ 7,122,099	$ 7,234,431
1,306,193	1,143,458	760,180	921,611	599,382
5,033,040	4,621,098	4,293,040	4,029,403	3,778,873
1,514,626	1,354,699	1,276,627	1,154,986	1,212,788
628,029	613,033	560,708	584,584	590,992
577,237	580,118	578,346	552,759	555,320
442,297	442,228	432,975	417,126	347,893
233,315	220,782	213,271	198,848	200,593
133,158	135,107	128,352	112,150	106,491
—	—	—	—	—
482,552	306,991	313,985	289,261	278,740
140,969	148,800	147,224	173,256	175,836
—	—	136,859	136,859	139,350
123,170	78,546	77,225	103,987	—
37,248	53,488	62,601	41,137	57,484
4,674	2,288	2,068	1,806	2,019
67,978	(11,620)	(302)	4,918	47,957
20,061,231	17,933,291	16,390,614	15,844,790	15,328,149
4	79	3	—	—
(67,978)	11,620	302	(4,918)	(47,957)
(67,974)	11,699	305	(4,918)	(47,957)
$ 19,993,257	$ 17,944,990	$ 16,390,919	$ 15,839,872	$ 15,280,192
$ 2,462,063	$ 981,755	$ 613,227	$ 771,636	$ 561,597
319,020	320,717	(204,481)	(449,429)	(509,384)
$ 2,781,083	$ 1,302,472	$ 408,746	$ 322,207	$ 52,213

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2002-2011

(Dollars in Thousands)

	2011 [2]	2010	2009	2008	2007	2006
General Fund						
Reserved	$ -	$ 224,358	$ 189,288	$ 172,909	$ 208,932	$ 155,948
Unreserved	-	(338,738)	(966,861)	1,505,230	2,397,786	1,810,452
Nonspendable	93,259	-	-	-	-	-
Restricted	72,032	-	-	-	-	-
Committed	1,115,156	-	-	-	-	-
Unassigned	(96,742)	-	-	-	-	-
Total General Fund [1]	$ 1,183,705	$ (114,380)	$ (777,573)	$ 1,678,139	$ 2,606,718	$ 1,966,400
All Other Governmental Funds						
Reserved	$ -	$ 994,418	$ 1,209,650	$ 1,182,723	$ 1,014,757	$ 951,701
Unreserved, reported in:						
Special revenue funds	-	2,321,665	2,337,370	2,517,529	2,524,643	2,204,146
Capital projects funds	-	10,311	(2,738)	280,939	224,991	115,060
Permanent funds	-	7,141	1,907	2,312	1,598	1,518
Nonspendable	199,053	-	-	-	-	-
Restricted	905,377	-	-	-	-	-
Committed	1,343,845	-	-	-	-	-
Unassigned	(1,627)	-	-	-	-	-
Total all other governmental funds	$ 2,446,648	$ 3,333,535	$ 3,546,189	$ 3,983,503	$ 3,765,989	$ 3,272,425

Table 3

2005	2004	2003	2002
$ 172,633	$ 197,448	$ 166,172	$ 227,767
(251,442)	(393,735)	(333,127)	(576,318)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
$ (78,809)	$ (196,287)	$ (166,955)	$ (348,551)
$ 911,966	$ 847,174	$ 672,653	$ 1,099,039
2,170,533	2,260,374	2,041,905	2,254,227
44,237	110,395	84,677	73,751
2,645	2,380	6,903	226
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
$ 3,129,381	$ 3,220,323	$ 2,806,138	$ 3,427,243

[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 (*see Notes to the Financial Statements, Note 23 and Note 24*). Fiscal years prior to 2011 have not been restated.

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2002-2011

(Dollars in Thousands)

	2011	2010	2009	2008	2007
Revenues					
Taxes	[1] $ 21,689,379	$ 20,866,244	$ 18,752,674	$ 21,583,521	$ 21,660,719
Federal funds	14,215,501	13,688,504	13,387,611	12,096,354	11,519,927
Local funds	186,944	218,162	349,303	527,325	725,542
Investment earnings	100,106	198,633	95,288	620,829	669,297
Interest earnings on loans	4,104	4,543	4,989	5,156	5,639
Sales and services	277,061	263,010	279,025	285,848	264,081
Rental and lease of property	25,165	22,122	25,398	27,737	28,722
Fees, licenses and fines	1,498,231	1,553,923	1,602,471	1,593,893	1,525,928
Tobacco settlement	138,256	146,358	175,187	159,954	142,825
Contributions, gifts, and grants	109,170	85,868	137,537	140,575	155,958
Funds escheated	111,481	70,381	27,399	74,743	214,500
Federal funds for fiscal relief	—	—	—	—	—
Federal recovery funds	2,265,393	2,391,851	1,164,674	N/A	N/A
Miscellaneous	158,946	164,685	184,839	167,449	122,161
Total revenues	40,779,737	39,674,284	36,186,395	37,283,384	37,035,299
Expenditures					
Current:					
General government	1,042,101	962,187	1,299,637	1,167,090	1,102,512
Primary and secondary education	10,000,438	9,850,462	10,111,797	9,879,602	9,087,905
Higher education	4,308,683	4,225,806	3,951,689	4,207,164	4,405,767
Health and human services	16,904,372	16,816,099	16,222,160	14,918,068	14,203,474
Economic development	742,368	915,038	634,369	747,728	623,038
Environment and natural resources	603,112	554,628	699,273	689,119	662,296
Public safety, corrections, and regulation	2,753,394	2,659,683	2,681,833	2,629,567	2,467,763
Transportation	3,660,069	3,253,258	3,266,494	3,473,718	3,296,301
Agriculture	113,153	112,902	111,506	117,380	92,062
Retiree tax judgements	—	—	—	—	—
Capital outlay	364,121	341,058	369,326	346,764	451,716
Debt service:					
Principal retirement	526,732	498,563	474,323	427,550	417,807
Interest and fees	393,432	322,287	326,287	329,813	306,410
Debt issuance costs	4,178	1,310	3,031	2,141	2,456
Total expenditures	41,416,153	40,513,281	40,151,725	38,935,704	37,119,507
Excess revenues over (under) expenditures	(636,416)	(838,997)	(3,965,330)	(1,652,320)	(84,208)
Other Financing Sources (Uses)					
Bonds issued	—	487,700	—	—	502,745
Special Indebtedness issued	500,000	—	600,000	275,000	300,000
GARVEE bonds issued	—	242,250	—	287,565	—
Refunding bonds issued	774,745	371,920	—	—	84,385
Other debt issued	—	9,098	1,533	7,425	2,897
Premium on debt issued	191,035	140,876	31,371	21,843	40,867
Discount on debt issued	—	—	—	—	—
Payments to refunded bond escrow agent	(370,982)	(435,870)	—	—	(85,519)
Payment of debt service principal	(499,870)	—	—	—	—
Capital leases	—	—	—	—	799
Sale of capital assets	12,118	11,994	13,079	29,570	15,898
Insurance recoveries	7,319	7,414	8,568	7,317	5,700
Transfers in	1,131,568	2,330,816	2,727,741	2,567,141	2,340,937
Transfers out	(698,319)	(1,876,502)	(2,309,101)	(2,223,438)	(2,030,162)
Total other financing sources (uses)	1,047,614	1,289,696	1,073,191	972,423	1,178,547
Net change in fund balances	$ 411,198	$ 450,699	$ (2,892,139)	$ (679,897)	$ 1,094,339
Debt service as a percentage of noncapital expenditures	2.37%	2.14%	2.12%	2.07%	2.06%

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

Table 4

2006	2005	2004	2003	2002
$ 19,848,465	$ 17,618,730	$ 15,961,629	$ 15,394,024	$ 14,894,796
11,315,722	11,287,454	10,089,075	8,672,065	8,459,344
610,501	767,067	657,954	586,638	702,076
384,014	292,406	160,846	320,023	335,082
5,405	5,664	5,801	7,165	47,421
260,538	235,894	210,161	184,739	194,548
25,982	38,585	27,848	22,175	24,359
1,405,569	1,218,431	1,035,303	915,380	864,912
136,453	148,641	146,452	173,256	175,836
118,936	108,450	150,731	90,486	93,802
108,075	49,684	55,330	41,369	90,181
—	—	136,859	136,859	N/A
N/A	N/A	N/A	N/A	N/A
161,052	146,529	196,937	147,777	145,887
34,380,712	31,917,535	28,834,926	26,691,956	26,028,244
963,899	754,175	711,327	691,267	809,398
8,211,998	7,713,265	7,223,143	6,863,338	6,802,662
3,471,604	3,576,766	3,140,698	2,813,629	2,519,624
13,318,071	13,376,364	11,722,721	10,583,184	10,398,386
643,510	622,000	532,674	484,298	498,644
626,442	579,853	581,726	534,405	574,871
2,291,596	2,123,837	2,073,338	1,998,576	2,070,166
3,219,549	3,511,161	3,389,042	2,967,551	2,992,187
110,626	82,508	81,488	81,857	122,337
—	—	—	—	—
270,882	313,932	385,506	104,379	126,011
367,946	303,818	235,792	168,009	180,398
288,088	241,936	185,350	152,110	147,580
1,645	7,454	4,830	1,410	734
33,785,856	33,207,069	30,267,635	27,444,013	27,242,998
594,856	(1,289,534)	(1,432,709)	(752,057)	(1,214,754)
370,000	1,075,140	1,377,560	711,600	605,000
—	188,385	283,955	17,500	—
—	—	—	—	—
—	959,665	326,710	556,350	—
30,688	12,686	17,597	—	4,832
16,338	210,116	137,256	25,017	14,733
—	—	—	(254)	—
—	(1,059,663)	(346,915)	(558,444)	—
—	—	—	—	—
26,745	212	—	150	216
20,131	14,674	10,105	8,882	12,570
6,537	—	—	—	—
1,784,222	1,754,448	1,566,520	1,587,388	1,478,308
(1,718,585)	(1,760,801)	(1,557,208)	(1,583,075)	(1,414,418)
536,076	1,394,862	1,815,580	765,114	701,241
$ 1,130,932	$ 105,328	$ 382,871	$ 13,057	$ (513,513)
2.08%	1.78%	1.51%	1.25%	1.30%

[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).

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2002-2011

(Dollars in Thousands)

		2011	2010	2009	2008	2007
TAX REVENUES		[3]				
Individual income tax	[1]	$ 10,018,039	$ 9,343,303	$ 8,658,635	$ 10,672,362	$ 10,737,494
Corporate income tax		1,139,584	1,245,515	941,509	1,265,654	1,357,454
Sales and use tax		6,133,915	5,871,166	4,872,318	5,125,674	5,078,997
Franchise tax		793,094	904,959	797,079	739,947	669,235
Beverage tax		311,814	295,349	263,553	257,393	245,430
Insurance tax		485,989	495,059	483,756	492,699	475,546
Piped natural gas		54,868	59,693	59,490	58,413	61,345
Inheritance tax		23,880	71,901	104,266	158,789	161,604
Soft drink tax		—	—	—	—	—
Tobacco products tax		290,743	278,296	242,071	249,664	241,687
License tax		48,924	41,338	37,716	55,293	48,137
Gift tax		2,973	12,036	12,294	17,361	15,669
Manufacturing tax		33,013	32,125	32,044	37,661	39,132
Other taxes		26,822	23,943	21,625	16,623	16,640
Total tax revenues		19,363,658	18,674,683	16,526,356	19,147,533	19,148,370
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		12,828,192	12,825,403	11,970,322	10,843,765	10,312,318
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		1,791,264	1,961,425	1,155,174	—	—
		14,619,456	14,786,828	13,125,496	10,843,765	10,312,318
Local Funds:						
Departmental revenues		149,545	153,234	304,270	486,536	665,532
Investment Earnings:						
Income from General Fund investments		30,925	36,877	103,703	234,478	208,955
Income from securities lending	[2]	9,527	49,733	(46,275)	143,487	216,072
Departmental revenues		7,295	3,264	4,788	7,829	8,059
Other investment earnings		—	—	3	39	66
		47,747	89,874	62,219	385,833	433,152
Interest Earnings on Loans:						
Departmental revenues		3,133	202	261	113	399
Sales and Services:						
Departmental revenues		130,166	97,323	104,925	102,307	94,664
Other non-tax revenues		112	116	143	138	171
		130,278	97,439	105,068	102,445	94,835
Rental and Lease of Property:						
Proceeds from rental and lease of property		88	67	83	98	41
Departmental revenues		11,523	8,810	8,773	7,908	8,392
		11,611	8,877	8,856	8,006	8,433
Fees, Licenses and Fines:						
Court fines and fees		225,710	216,772	190,995	198,520	159,583
Secretary of State service fees		76,451	81,221	64,202	62,035	58,046
Banking and investment fees		6,092	5,955	5,709	5,862	5,466
Self insurer fees (Industrial Commission)		15,176	15,497	15,230	14,791	14,292
Probation supervision fees		15,000	11,892	16,758	16,892	16,629
Department of Insurance fees		38,174	38,271	43,965	42,872	27,991
DWI service and restoration fees		8,928	7,638	9,310	9,441	8,782
Departmental revenues		217,191	212,260	184,952	164,813	160,006
Fines from tax collection activity		—	78,090	85,135	93,181	69,758
Other non-tax revenues		4,750	6,912	5,340	6,583	4,944
		607,472	674,508	621,596	614,990	525,497
Tobacco settlement						
Tobacco settlement		138,256	146,358	175,187	159,954	142,825
Contributions, Gifts and Grants:						
Departmental revenues		22,591	20,391	16,179	16,054	17,207
Other non-tax revenues		—	—	—	—	—
		22,591	20,391	16,179	16,054	17,207
Miscellaneous:						
Local sales and use tax administration		13,692	14,603	15,613	16,982	16,979
Sales tax refunds		2,432	2,134	1,906	3,303	4,124
Departmental revenues		101,336	117,511	119,107	106,517	56,733
Other non-tax revenue		4,871	6,517	22,220	1,566	1,508
		122,331	140,765	158,846	128,368	79,344
Total non-tax revenues		15,852,420	16,118,476	14,577,978	12,746,064	12,279,542
Total Revenues	[1,2]	$ 35,216,078	$ 34,793,159	$ 31,104,334	$ 31,893,597	$ 31,427,912

Table 5

2006	2005	2004	2003	2002
$ 9,493,714	$ 8,206,026	$ 7,404,956	$ 7,126,655	$ 7,219,794
1,208,356	1,065,374	699,441	922,936	548,046
5,007,567	4,587,542	4,268,292	4,020,923	3,766,285
628,665	613,093	560,502	583,781	592,259
232,987	220,782	213,271	198,848	200,593
431,729	431,664	423,405	408,873	340,785
58,397	60,739	64,327	63,219	64,852
133,248	134,419	129,579	112,605	104,799
—	—	—	—	2
187,566	43,361	44,126	41,899	41,500
46,035	44,219	42,418	44,565	44,432
16,251	18,924	16,615	19,328	13,392
11,992	—	—	—	—
15,579	14,114	13,571	12,508	17,479
17,472,086	15,440,257	13,880,503	13,556,140	12,954,218
9,905,879	9,755,067	8,769,925	7,564,627	7,266,016
—	—	136,859	136,859	—
—	—	—	—	—
9,905,879	9,755,067	8,906,784	7,701,486	7,266,016
574,300	731,368	636,900	562,498	682,310
122,405	75,669	76,415	103,786	129,924
133,098	48,463	21,305	30,604	44,659
7,357	8,539	2,613	4,745	4,217
44	14	3	5	9,531
262,904	132,685	100,336	139,140	188,331
—	—	—	—	—
94,994	85,592	76,010	61,316	61,031
184	168	182	198	228
95,178	85,760	76,192	61,514	61,259
57	4,304	102	92	546
7,885	7,072	6,620	6,140	6,556
7,942	11,376	6,722	6,232	7,102
158,646	142,798	138,878	126,381	109,575
55,976	46,975	40,638	36,807	31,357
5,386	5,165	4,758	4,485	4,336
14,269	14,128	13,777	13,512	6,795
16,471	16,476	16,748	14,339	10,833
25,990	24,526	25,147	21,198	22,854
8,420	8,398	8,709	7,332	5,822
157,024	200,452	62,578	41,747	41,540
53,663	—	—	—	—
5,173	3,818	4,388	4,161	4,124
501,018	462,736	315,621	269,962	237,236
136,453	148,641	146,452	173,256	175,836
17,632	34,375	50,140	29,702	33,658
1	105	234	1	30
17,633	34,480	50,374	29,703	33,688
14,356	13,932	13,989	12,495	11,774
3,014	10,253	14,456	7,908	11,120
113,171	84,927	123,852	95,753	89,489
1,302	1,253	2,083	315	6,307
131,843	110,365	154,380	116,471	118,690
11,633,150	11,472,478	10,393,761	9,060,262	8,770,468
$ 29,105,236	$ 26,912,735	$ 24,274,264	$ 22,616,402	$ 21,724,686

[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 (*see Notes to the Financial Statements, Note 23 and Note 24*). Fiscal years prior to 2011 have not been restated.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2000-2009

(Dollars in thousands)

		2009	2008	2007	2006	2005
Manufacturing		$ 30,075,278	$ 33,060,623	$ 33,710,683	$ 32,935,416	$ 32,568,557
Retail trade		15,047,701	15,968,817	16,531,753	15,824,997	15,247,734
Services		79,085,813	80,299,621	76,626,731	71,395,713	65,206,678
Agricultural, forestry, fishing, etc		664,346	638,502	659,840	653,293	603,690
Government		52,025,980	49,982,107	46,472,640	42,936,344	40,511,663
Construction		12,827,476	15,826,468	17,142,439	16,676,066	14,995,919
Wholesale trade		12,295,176	13,044,406	12,996,538	12,139,388	11,243,020
Transportation and warehousing		6,532,394	7,002,268	6,944,803	6,826,584	6,660,176
Finance and insurance		13,275,467	14,345,063	14,669,551	14,383,089	12,593,724
Mining		300,450	342,948	358,233	345,095	294,567
Utilities	[1]	1,423,457	1,450,647	1,348,556	1,360,334	1,265,031
Information	[1]	5,977,352	6,135,815	5,814,873	5,626,640	5,418,024
Real estate and rental and leasing		3,100,226	3,272,346	3,368,563	3,838,434	3,829,563
Other		94,567,959	88,600,331	80,310,758	72,655,030	67,305,137
Total		$ 327,199,075	$ 329,969,962	$ 316,955,961	$ 297,596,423	$ 277,743,483
Average effective rate [2]:						
Individual income tax		2.6%	3.2%	3.4%	3.2%	3.0%

[1] 2002 is the first fiscal year data was collected for this industry.

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

Source: Bureau of Economic Analysis (Data for 2010 & 2011 is not available.)

Table 6

2004	2003	2002	2001	2000
$ 32,396,449	$ 32,161,055	$ 32,375,674	$ 33,266,256	$ 35,667,363
14,405,203	13,967,967	13,516,856	13,197,763	16,540,822
61,288,110	56,777,852	54,700,974	51,484,324	42,447,628
595,838	552,685	543,807	539,090	1,004,911
37,711,849	35,272,127	32,923,320	31,293,332	29,959,387
13,783,354	12,829,904	12,664,406	13,197,476	13,046,397
10,558,552	9,683,219	9,253,121	8,838,791	10,073,891
6,447,742	5,952,517	5,738,970	6,069,310	9,741,907
11,515,594	10,916,275	10,414,855	9,759,381	13,706,858
254,654	221,600	216,001	253,650	261,709
1,310,832	1,239,668	1,218,858	—	—
5,322,364	5,159,965	5,034,451	—	—
3,714,865	3,653,635	3,498,745	3,473,445	3,151,758
61,392,684	55,307,537	54,598,193	61,458,018	49,925,576
$ 260,698,090	$ 243,696,006	$ 236,698,231	$ 232,830,836	$ 225,528,207
2.8%	2.9%	3.1%	3.3%	3.1%

Individual Income Tax Filers and Liability - Calendar Years 2000 and 2009
Individual Income Tax Rates - Calendar Years 2002-2011

Individual Income Tax Filers and Liability by Income Level

North Carolina Taxable Income	Calendar Year 2009 Number of Returns	% of Total	Tax Liability	% of Total	Calendar Year 2000 Number of Returns	% of Total	Tax Liability	% of Total
0 to $15,000....................	2,105,668	51.3%	$ 400,232,510	4.7%	1,858,566	51.6%	$ 466,134,548	6.6%
$15,001 to $25,000..........	535,686	13.1%	596,003,934	7.0%	519,508	14.4%	604,454,094	8.5%
$25,001 to $50,000..........	729,630	17.8%	1,618,336,112	19.0%	695,792	19.3%	1,548,585,487	21.8%
$50,001 to $75,000..........	337,693	8.2%	1,328,194,819	15.6%	272,901	7.6%	1,064,877,073	15.0%
$75,001 to $100,000........	164,344	4.0%	939,363,021	11.0%	104,332	2.9%	595,652,321	8.4%
$100,001 to $200,000......	172,484	4.2%	1,607,598,017	18.9%	103,277	2.9%	950,682,542	13.4%
$200,001 and up.............	58,914	1.4%	2,033,277,174	23.8%	46,446	1.3%	1,861,295,713	26.3%
	4,104,419	100.0%	$ 8,523,005,587	100.0%	3,600,822	100.0%	$ 7,091,681,778	100.0%

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Calendar year 2009 is the most recent year for which data are available.

Table 7

Individual Income Tax Rates - Last 10 Years

2002-2006

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%

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%

2008

Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 4
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%	

2009-2011

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

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.

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.

Source: North Carolina Department of Revenue

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2002-2011

(Dollars in Thousands)

	2011	2010	2009	2008	2007
General merchandise	$ 26,997,731	$ 26,700,373	$ 27,281,044	$ 27,545,474	$ 27,814,179
Food	20,063,710	19,986,254	19,982,767	20,427,943	18,856,362
Lumber & building material	9,980,618	9,896,788	11,728,029	15,125,717	15,625,168
Automotive	5,592,481	5,371,476	5,365,726	5,782,027	6,138,450
1%, 2%, 2.5% and 3% tax group	429,092	411,092	653,686	878,522	1,350,932
Furniture	3,416,656	3,442,183	3,854,662	4,746,011	4,733,484
Apparel	3,962,251	3,756,305	3,628,009	3,901,540	3,753,902
Unclassified	26,316,563	25,056,266	27,197,294	29,529,959	28,314,743
Total	$ 96,759,102	$ 94,620,737	$ 99,691,217	$ 107,937,193	$ 106,587,220
Direct sales tax rate	5.75%	5.75%	4.50%	4.25%	4.25%

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

2006	2005	2004	2003	2002
$ 24,141,458	$ 36,237,522	$ 32,223,308	$ 29,741,143	$ 28,570,546
17,333,935	27,537,881	25,767,200	23,947,582	22,738,449
14,749,083	16,234,363	13,775,836	11,975,740	11,749,882
5,416,622	18,109,374	16,588,986	16,510,653	17,523,975
4,551,097	5,467,429	5,155,348	5,114,707	4,474,248
4,387,923	5,528,144	5,030,490	4,725,403	4,650,441
3,481,573	3,622,110	3,169,392	2,846,629	2,787,520
27,490,165	40,846,913	38,401,343	37,820,249	34,761,241
$ 101,551,856	$ 153,583,736	$ 140,111,903	$ 132,682,106	$ 127,256,302
4.50%	4.50%	4.50%	4.50%	4.50%

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2002 & 2011

	2011		2002	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise	$ 1,556,012,339	23.70%	$ 779,544,745	19.65%
Food	1,159,701,808	17.66%	592,373,707	14.93%
Utilities	999,108,470	15.21%	502,420,816	12.66%
Lumber & building material	575,147,798	8.76%	417,621,545	10.53%
Automotive	333,430,370	5.08%	208,599,593	5.26%
Furniture	197,328,858	3.00%	152,256,737	3.84%
Apparel	228,324,220	3.48%	111,403,687	2.81%
Farming	39,005	0.00%	44,467,748	1.12%
Unclassified	1,517,969,104	23.11%	1,159,122,440	29.20%
Total	$ 6,567,061,972	100.00%	$ 3,967,811,018	100.00%
General state sales tax rate	5.75%		4.50%	

Recent Significant Sales Tax Rate and Base Changes

2002	Effective January 1, 2002, gross receipts of direct-to-home satellite service to subscribers in this State became subject to a 5% State sales tax. Effective January 1, 2002, gross receipts derived from providing telecommunications services became subject to a 6% State sales and use tax. [Prior to the law change, local telecommunications services were subject to a 3% State sales tax rate and a 3.22% utility franchise tax rate; interstate long distance calls were taxed at 6.5% and interstate long distance calls were exempt.]
2003-04	Effective July 1, 2003, all sales of soft drinks became subject to both the State and local rates. Effective January 1, 2004, sales of closed container soft drinks sold through vending machines were taxed on only 50% of the sale price. Effective January 1, 2004, candy was exempted from the State tax and subject to only the 2% local tax. Effective for sales made on or after January 1, 2004, modular homes became subject to a 2.5% State sales and use tax rate.
2005-06	Effective October 1, 2005, all sales of candy became subject to the combined general State and county tax rate. Effective October 1, 2005, the sales and use tax imposed on telecommunications, direct-to-home satellite services, and spiritous liquor increased to 7%. Effective January 1, 2006, 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.
2006-07	Effective June 29, 2007, the combined rate is the State's general rate 4.25% plus the sum of the rates of local tax authorized for every county in the State 2.5%. Effective January 1, 2007, sales of intermodal cranes, intermodal hostler trucks and railroad locomotives to the owner or lessee of an eligible railroad intermodal facility was exempted. Sales to the owner or lessee of an eligible railroal intermodal facility of sales taxes on building supplies, fixtures, and equipment that become a part of the real property of the facility was exempted. Effective June 29, 2007, additional 0.25% Sales general and use tax rate, scheduled to be repealed for sales made on or after July 1, 2007, was extended for one month.
2007-08	Effective July 1, 2007, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%. Effective July 1, 2007, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds. Effective July 31, 2007, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75%. Effective October 1, 2007, Tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%. Effective October 1, 2007, Tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Privilege tax sold to manufacturing industry decreased from 1% to 0.7%. Bundled transaction defined to remain compliant with SSTA. Baler twine sold to farmers and bread sold at a bakery thrift store was exempted. State began three year phase- in assumption of the financial nonfederal, nonadministrative Medicaid responsibility for counties that include a 1/2% sales tax rate exchange between local and state governments as well as various measures to insure the local governments are held harmless (protected from revenue loss) as a result of the Medicaid swap legislation. Effective April 1, 2008 Combined general rate raised from 6.75% to 7%.

Table 9

Recent Significant Sales Tax Rate and Base Changes

2008-09	Retroactive for purchases made on or after January 1, 2004. Refund provision extended to University Affiliated Nonprofit Organizations that procure, design, construct, or provide facilities to or for use by, a constituent institution of the Univeristy of North Carolina. Effective July 1, 2008, tax on electricity sold to farmers and manufacturers (1.8%) repealed. New tax rate is 1.4%. Refund provision expanded to include certain industrial facilities-solar electricity generating materials manufacturing industry. Refund provision expanded to include volunteer fire department or volunteer emergency medical services squad. Privilege tax on fuel sold to a manufacturing industry decreased from .7% to .5%. Effective July 16, 2008 , new sales and use tax holiday for Energy Star qualified products (1st Friday in November through following Sunday). Refund provision to interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2011 (previously January 1, 2009). Effective August 1, 2008, exemption for tpp purchased with a client assistance debit card issued for disaster assistance relief by qualified entities. Exemption for interior design services provided in conjunction with the sale of tpp. Effective October 1, 2008, State general tax raised from 4.25% to 4.5%. Local sales tax rate under Article 44 lowered from 0.5% to .25%. Effective January 1, 2009, exemption for bakery items sold without eating utensils by an artisan bakery.
2009-10	Effective July 1, 2009, tax on electricity sold to farmers/manufacturers decreased from 1.4% to 0.8%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.5% to 0.3% Effective August 7, 2009, online sales- remote sales:certain click-through transactions subject to tax. Effective August 27, 2009 - Authorizing legislation for regional transportation authorities and counties to impose a local government sales and use tax rate of 0.25% or 0.5% for public transportation. Effective September 1, 2009, State general tax rate raised from 4.5% to 5.5%. Combined general rate raised from 7% to 8%. (Temporary additional 1% State general sales and use tax rate, scheduled to be repealed for sales made on or after July 1, 2011). Effective October 1, 2009, State general tax raised from 5.5% to 5.75%. Local sales tax rate under Article 44 (.25%) repealed. Exemption for aircraft simulators purchased by interstate passenger air carriers expanded to include all purchasers of such equipment. Effective January 1, 2010, Sales tax on online purchases - Certain digital property, magazine subsciptions, computer software subject to tax. Exemption for computer software or digital property that becomes a component part.
2010-11	Effective July 1, 2010, tax on electricity sold to farmers/manufacturers decreased from .8% to 0%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.3% to 0%. Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Effective July 10, 2010, Refund provision to joint governmental agency created to operate a cable television system for purchases made on/after July 1, 2007 and before June 30, 2010. Effective January 1, 2011, Sales tax law on accomodations was modernized to classify facilitators who assist accomodation owners with rentals as retailers subject to sales and use and room occupancy taxes. Facilitation or similar fees are includable in the sales price. Effective June 18, 2011, Refund provision to joint governmental agency created to operate a cable television system extended to purchases made on/after July 1, 2007 and before June 30, 2011 (previously before June 30, 2010).

Source: North Carolina Department of Revenue

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2002-2011
(Dollars in Thousands)

		2011	2010	2009	2008	2007
Governmental activities:						
General obligation bonds		$ 4,846,205	$ 5,270,660	$ 5,169,265	$ 5,533,760	$ 5,902,330
Lease-purchase revenue bonds		205,045	215,045	225,045	235,045	245,045
Revenue bonds		—	—	—	—	—
Certificates of participation		824,860	872,600	919,585	965,880	727,640
Limited obligation bonds		1,060,745	580,705	600,000	—	—
GARVEE bonds		373,080	434,825	241,820	287,565	—
Notes payable		25,038	30,642	27,663	33,187	37,276
Capital leases payable		22,669	22,815	23,833	24,659	25,740
Total Governmental Activities		7,357,642	7,427,292	7,207,211	7,080,096	6,938,031
Business-type activities:						
Revenue bonds	(a), (b)	856,678	622,758	—	—	—
Notes payable	(a), (b)	269,030	68,800	—	—	—
Total Business-type Activities		1,125,708	691,558	—	—	—
Total Primary Government		$ 8,483,350	$ 8,118,850	$ 7,207,211	$ 7,080,096	$ 6,938,031
Debt as a Percentage of Personal Income		2.43%	2.43%	2.25%	2.14%	2.20%
Amount of Debt per Capita		$ 875	$ 851	$ 768	$ 766	$ 765

Note:

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

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

Table 10

2006	2005	2004	2003	2002
$ 5,738,815	$ 5,698,535	$ 4,982,860	$ 4,066,990	$ 3,467,325
255,045	265,045	218,405	—	—
8,800	—	—	—	—
454,060	475,170	301,165	17,500	—
—	—	—	—	—
—	—	—	—	—
62,298	34,007	25,008	9,629	11,753
26,879	330	304	322	216
6,545,897	6,473,087	5,527,742	4,094,441	3,479,294
—	9,070	9,325	9,570	9,905
—	1,569	—	—	—
—	10,639	9,325	9,570	9,905
$ 6,545,897	$ 6,483,726	$ 5,537,067	$ 4,104,011	$ 3,489,199
2.21%	2.34%	2.13%	1.69%	1.48%
$ 738	$ 748	$ 649	$ 488	$ 420

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2002-2011 *Table 11*

(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	Total	Per Capita
2011	$4,846,205	$ 205,045	$ 824,860	$1,060,745	$ 373,080	$7,309,935	$ 754.16
2010	5,270,660	215,045	872,600	580,705	434,825	7,373,835	773.30
2009	5,169,265	225,045	919,585	600,000	241,820	7,155,715	762.80
2008	5,533,760	235,045	965,880	—	287,565	7,022,250	759.40
2007	5,902,330	245,045	727,640	—	—	6,875,015	758.49
2006	5,738,815	255,045	454,060	—	—	6,447,920	727.18
2005	5,698,535	265,045	475,170	—	—	6,438,750	742.69
2004	4,982,860	218,405	301,165	—	—	5,502,430	644.97
2003	4,066,990	—	1,750	—	—	4,068,740	483.43
2002	3,467,326	—	—	—	—	3,467,326	416.92

Note: Population data can be found in table 15.

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SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2011

(Dollars in Thousands)

	Total General Obligation Bonds	*Payable from General Fund Revenues* — *Total General Fund*	Clean Water Refunding Series 1999 4-1-99 2.9-5.0%	Public Improvement Series 2001A 3-1-01 4.5-5.0%	Public Improvement Series 2002A 3-1-02 4.0-5.5%	Public Improvement Series 2002D 5-1-02 Variable to 18%	Public Improvement Series 2002E 5-1-02 Variable to 18%	Public Improvement Series 2002F 5-1-02 Variable to 18%
Bonds Authorized and Issued:								
Ch. 631, 1995 session law....	$ 155,000	$ 155,000	$ —	$ 100,000	$ —	$ 55,000	$ —	$ —
General Statute Ch. 142........	261,615	261,615	25,905	—	—	—	—	—
Ch. 590, 1995 session law....	400,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law....	361,555	361,555	—	30,000	204,400	—	—	—
Ch. 3, 2000 session law........	2,122,800	2,122,800	—	250,000	—	33,750	88,750	88,750
2004 session law..................	4,115,484	3,448,437	—	—	—	—	—	—
Total bonds authorized and issued........................	7,416,454	6,349,407	25,905	380,000	204,400	88,750	88,750	88,750
Bonds retired.........................	1,766,739	1,447,797	16,080	160,000	179,400	—	—	—
Partial defeasances..............	803,510	520,110	—	211,460	—	—	—	—
Bonds outstanding— 6/30/2011..........	$ 4,846,205	$4,381,500	$ 9,825	$ 8,540	$ 25,000	$ 88,750	$ 88,750	$ 88,750
Bond Maturity As Follows:								
2011-12............................	$ 375,705	$ 319,136	$ 2,000	$ 1,265	$ 25,000	$ —	$ —	$ —
2012-13............................	387,295	325,648	1,980	1,265	—	6,250	6,250	6,250
2013-14............................	384,259	321,842	1,965	1,265	—	6,250	6,250	6,250
2014-15............................	387,560	340,884	1,950	1,265	—	6,250	6,250	6,250
2015-16............................	388,010	350,427	1,930	1,265	—	6,250	6,250	6,250
2016-17............................	386,295	334,509	—	2,215	—	6,250	6,250	6,250
2017-18............................	386,765	341,433	—	—	—	10,750	10,750	10,750
2018-19............................	389,211	343,823	—	—	—	23,250	23,250	23,250
2019-20............................	356,180	298,873	—	—	—	18,750	18,750	18,750
2020-21............................	275,850	275,850	—	—	—	4,750	4,750	4,750
2021-22............................	256,690	256,690	—	—	—	—	—	—
2022-23............................	253,145	253,145	—	—	—	—	—	—
2023-24............................	227,385	227,385	—	—	—	—	—	—
2024-25............................	147,785	147,785	—	—	—	—	—	—
2025-26............................	85,785	85,785	—	—	—	—	—	—
2026-27............................	68,630	68,630	—	—	—	—	—	—
2027-28............................	40,885	40,885	—	—	—	—	—	—
2028-29............................	24,385	24,385	—	—	—	—	—	—
2029-30............................	24,385	24,385	—	—	—	—	—	—
Total Bonds Outstanding.......	$ 4,846,205	$4,381,500	$ 9,825	$ 8,540	$ 25,000	$ 88,750	$ 88,750	$ 88,750

Table 12

Payable from General Fund Revenues

Public Improvement Series 2002G 5-1-02 Variable to 18%	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%	Refunding Series 2003E 8-1-03 4%-5%	Public Improvement Series 2004A 3-1-04 2%-5.25%	Public School Refunding Series 2004 9-29-04 5%	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%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	235,710	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	18,800	38,355	—	—	—	—	—	—	—
88,750	—	281,645	283,255	—	707,900	—	—	—	—
—	—	—	—	—	—	155,245	57,470	705,500	106,895
88,750	18,800	320,000	283,255	235,710	707,900	155,245	57,470	705,500	106,895
—	1,815	64,000	61,300	187,435	120,000	124,300	19,565	214,000	290
—	—	—	—	—	—	—	—	248,650	—
$ 88,750	$ 16,985	$ 256,000	$ 221,955	$ 48,275	$ 587,900	$ 30,945	$ 37,905	$ 242,850	$ 106,605

$ —	$ 750	$ 13,000	$ 13,000	$ 27,855	$ 25,000	$ 30,945	$ 9,535	$ 25,000	$ 12,025
6,250	1,815	13,000	13,000	20,420	25,000	—	9,510	25,000	11,935
6,250	1,795	13,000	13,000	—	25,000	—	9,490	25,000	11,810
6,250	1,775	13,000	13,000	—	25,000	—	9,370	25,000	11,680
6,250	2,245	13,000	13,000	—	25,000	—	—	25,000	11,600
6,250	510	13,000	13,000	—	25,000	—	—	25,000	47,555
10,750	4,915	13,000	13,000	—	25,000	—	—	1,455	—
23,250	3,180	16,500	18,000	—	25,000	—	—	1,455	—
18,750	—	16,500	30,000	—	65,000	—	—	3,140	—
4,750	—	16,500	30,000	—	65,000	—	—	4,650	—
—	—	16,500	30,000	—	65,000	—	—	4,650	—
—	—	16,500	22,955	—	65,000	—	—	—	—
—	—	16,500	—	—	65,000	—	—	77,500	—
—	—	16,500	—	—	62,900	—	—	—	—
—	—	16,500	—	—	—	—	—	—	—
—	—	16,500	—	—	—	—	—	—	—
—	—	16,500	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
$ 88,750	$ 16,985	$ 256,000	$ 221,955	$ 48,275	$ 587,900	$ 30,945	$ 37,905	$ 242,850	$ 106,605

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2011

(Dollars in Thousands)

Payable from General Fund Revenues

	Refunding Series 2005B 6-29-05 5%	Clean Water Series 2006A 3-15-06 3.875%-5.5%	Higher Education Series 2006A 6-14-06 4.25%-5%	Public Improvement Series 2007A 3-1-07 4.125%-5.5%	Refunding Series 2007B 5-9-07 4%-4.5%	Refunding Series 2009A 10-20-09 3.5%-5%	Public Improvement Series 2010A 4-14-10 4%-5%	Refunding Series 2010B 8-31-10 5%	Refunding Series 2010C 10-12-10 5%
Bonds Authorized and Issued:									
Ch. 631, 1995 session law	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
General Statute Ch. 142....	—	—	—	—	—	—	—	—	—
Ch. 590, 1995 session law	—	—	—	—	—	—	—	—	—
Ch. 132, 1998 session law	—	70,000	—	—	—	—	—	—	—
Ch. 3, 2000 session law....	—	—	300,000	—	—	—	—	—	—
2004 session law...............	470,510	—	—	502,745	84,385	169,297	487,700	472,595	236,095
Total bonds authorized and issued.....................	470,510	70,000	300,000	502,745	84,385	169,297	487,700	472,595	236,095
Bonds retired.....................	77,010	15,500	75,000	100,000	1,405	5,357	24,385	955	—
Partial defeasances...........	—	—	60,000	—	—	—	—	—	—
Bonds outstanding— 6/30/2011.........................	$ 393,500	$ 54,500	$ 165,000	$ 402,745	$ 82,980	$ 163,940	$ 463,315	$ 471,640	$ 236,095
Bond Maturity As Follows:									
2011-12.........................	$ 45,490	$ 3,200	$ 15,000	$ 25,000	$ 195	$ 2,146	$ 24,385	$ 18,345	$ —
2012-13.........................	53,010	3,200	15,000	25,000	205	6,523	24,385	50,400	—
2013-14.........................	73,555	3,200	15,000	25,000	215	6,532	24,385	46,630	—
2014-15.........................	73,650	3,200	15,000	25,000	225	22,289	24,385	50,095	—
2015-16.........................	69,255	3,200	15,000	25,000	230	31,402	24,385	63,915	—
2016-17.........................	71,925	3,200	—	25,000	240	43,269	24,385	15,210	—
2017-18.........................	6,615	3,200	—	25,000	250	22,448	24,385	137,430	21,735
2018-19.........................	—	3,200	—	25,000	260	22,503	24,385	89,615	21,725
2019-20.........................	—	4,000	—	25,000	275	6,828	24,385	—	48,745
2020-21.........................	—	4,000	15,000	25,000	285	—	24,385	—	72,030
2021-22.........................	—	4,000	15,000	25,000	295	—	24,385	—	71,860
2022-23.........................	—	4,000	15,000	25,000	80,305	—	24,385	—	—
2023-24.........................	—	4,000	15,000	25,000	—	—	24,385	—	—
2024-25.........................	—	4,000	15,000	25,000	—	—	24,385	—	—
2025-26.........................	—	4,900	15,000	25,000	—	—	24,385	—	—
2026-27.........................	—	—	—	27,745	—	—	24,385	—	—
2027-28.........................	—	—	—	—	—	—	24,385	—	—
2028-29.........................	—	—	—	—	—	—	24,385	—	—
2029-30.........................	—	—	—	—	—	—	24,385	—	—
Total Bonds Outstanding...	$ 393,500	$ 54,500	$ 165,000	$ 402,745	$ 82,980	$ 163,940	$ 463,315	$ 471,640	$ 236,095

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2011 *Table 12*

(Dollars in Thousands)

Payable from Highway Trust Fund

	Total Highway Trust	Highway Series 2003 12-1-03 3%-5%	Highway Refunding Series 2004 9-29-04 5.0-5.5%	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%
Bonds Authorized and Issued:						
Ch. 631, 1995 session law..........	$ —	$ —	$ —	$ —	$ —	$ —
General Statute Ch. 142.............	—	—	—	—	—	—
Ch. 590, 1995 session law..........	400,000	400,000	—	—	—	—
Ch. 132, 1998 session law..........	—	—	—	—	—	—
Ch. 3, 2000 session law.............	—	—	—	—	—	—
2004 session law.........................	667,047	—	98,370	300,000	202,622	66,055
Total bonds authorized and issued...............................	1,067,047	400,000	98,370	300,000	202,622	66,055
Bonds retired..............................	318,942	126,000	66,530	120,000	6,412	—
Partial defeasances.....................	283,400	203,400	—	80,000	—	—
Bonds outstanding— 6/30/2011..................................	$ 464,705	$ 70,600	$ 31,840	$ 100,000	$ 196,210	$ 66,055
Bond Maturity As Follows:						
2011-12..................................	$ 56,569	$ 18,000	$ 16,000	$ 20,000	$ 2,569	$ —
2012-13..................................	61,647	18,000	15,840	20,000	7,807	—
2013-14..................................	62,417	34,600	—	20,000	7,817	—
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..................................	57,307	—	—	20,000	8,172	29,135
2020-21..................................	—	—	—	—	—	—
2021-22..................................	—	—	—	—	—	—
2022-23..................................	—	—	—	—	—	—
2023-24..................................	—	—	—	—	—	—
2024-25..................................	—	—	—	—	—	—
2025-26..................................	—	—	—	—	—	—
2026-27..................................	—	—	—	—	—	—
2027-28..................................	—	—	—	—	—	—
2028-29..................................	—	—	—	—	—	—
2029-30..................................	—	—	—	—	—	—
Total Bonds Outstanding............	$ 464,705	$ 70,600	$ 31,840	$ 100,000	$ 196,210	$ 66,055

Source: Compiled by the Department of State Treasurer

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2011

(Dollars in Thousands)

		Lease-Purchase Revenue Bonds			Certificates of Participation				
	Total Special Indebtedness Debt	*Total Lease Purchase Revenue Bonds*	NC Correctional Facilities Series 2003 7-15-03 2.0% - 5.25%	NC Facilities Projects Series 2004 11-1-04 2.0% - 5.25%	*Total Certificates of Participation*	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 2004A 5-6-04 2.0% - 5.0%	Capital Improvements Series 2005A 6-9-05 3.5% - 5.0%
Bonds Authorized and Issued:									
Ch. 284, 2003 session law.........	$ 2,177,360	$ 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.............................	2,436,885	272,045	218,405	53,640	1,064,840	17,500	158,955	125,000	188,385
Bonds retired.............................	346,235	67,000	55,000	12,000	239,980	4,955	55,645	42,000	43,820
Bonds outstanding— June 30, 2011......................	$ 2,090,650	$ 205,045	$ 163,405	$ 41,640	$ 824,860	$ 12,545	$ 103,310	$ 83,000	$ 144,565
Bond Maturity As Follows:									
2011-12.................................	$ 91,555	$ 10,000	$ 8,000	$ 2,000	$ 48,550	$ 795	$ 7,950	$ 6,000	$ 8,580
2012-13.................................	98,390	10,000	8,000	2,000	49,395	825	7,950	6,000	9,005
2013-14.................................	100,680	10,000	8,000	2,000	50,290	860	7,950	6,000	9,455
2014-15.................................	103,125	10,000	8,000	2,000	51,245	905	7,950	6,000	9,925
2015-16.................................	105,945	10,000	8,000	2,000	52,250	950	7,950	6,000	10,425
2016-17.................................	107,525	8,650	8,000	650	53,305	1,000	7,945	6,000	10,945
2017-18.................................	110,500	8,500	8,000	500	54,430	1,055	7,945	6,000	11,495
2018-19.................................	113,230	8,000	8,000	—	55,605	1,110	7,945	6,000	12,065
2019-20.................................	138,505	28,850	19,000	9,850	57,850	1,165	7,945	7,000	12,670
2020-21.................................	134,020	24,000	19,000	5,000	55,865	1,230	7,945	7,000	10,000
2021-22.................................	137,205	24,000	19,000	5,000	56,580	1,290	7,945	7,000	10,000
2022-23.................................	140,770	24,000	19,000	5,000	57,350	1,360	7,945	7,000	10,000
2023-24.................................	145,340	26,225	23,405	2,820	56,725	—	7,945	7,000	10,000
2024-25.................................	110,890	2,820	—	2,820	42,560	—	—	—	10,000
2025-26.................................	102,180	—	—	—	33,390	—	—	—	—
2026-27.................................	101,440	—	—	—	29,270	—	—	—	—
2027-28.................................	95,925	—	—	—	20,200	—	—	—	—
2028-29.................................	79,470	—	—	—	—	—	—	—	—
2029-30.................................	36,030	—	—	—	—	—	—	—	—
2030-31.................................	37,925	—	—	—	—	—	—	—	—
Total Bonds Outstanding...........	$ 2,090,650	$ 205,045	$ 163,405	$ 41,640	$ 824,860	$ 12,545	$ 103,310	$ 83,000	$ 144,565

Source: Compiled by the Department of State Treasurer.

Table 13

Certificates of Participation				*Limited Obligation bonds*			
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%	*Total Limited Obligation Bonds*	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%
$ 100,000	$ 200,000	$ 200,000	$ 75,000	$ 1,100,000	$ 200,000	$ 400,000	$ 500,000
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
100,000	200,000	200,000	75,000	1,100,000	200,000	400,000	500,000
25,000	40,000	17,310	11,250	39,255	12,400	26,855	—
$ 75,000	$ 160,000	$ 182,690	$ 63,750	$ 1,060,745	$ 187,600	$ 373,145	$ 500,000
$ 5,000	$ 10,000	$ 6,475	$ 3,750	$ 33,005	$ 6,670	$ 14,040	$ 12,295
5,000	10,000	6,865	3,750	38,995	7,000	14,565	17,430
5,000	10,000	7,275	3,750	40,390	7,350	15,090	17,950
5,000	10,000	7,715	3,750	41,880	7,720	15,670	18,490
5,000	10,000	8,175	3,750	43,695	8,105	16,360	19,230
5,000	10,000	8,665	3,750	45,570	8,510	17,060	20,000
5,000	10,000	9,185	3,750	47,570	8,935	17,835	20,800
5,000	10,000	9,735	3,750	49,625	9,385	18,610	21,630
5,000	10,000	10,320	3,750	51,805	9,855	19,455	22,495
5,000	10,000	10,940	3,750	54,155	10,345	20,415	23,395
5,000	10,000	11,595	3,750	56,625	10,860	21,435	24,330
5,000	10,000	12,295	3,750	59,420	11,405	22,470	25,545
5,000	10,000	13,030	3,750	62,390	11,975	23,590	26,825
5,000	10,000	13,810	3,750	65,510	12,575	24,770	28,165
5,000	10,000	14,640	3,750	68,790	13,205	26,010	29,575
—	10,000	15,520	3,750	72,170	13,865	27,255	31,050
—	—	16,450	3,750	75,725	14,555	28,565	32,605
—	—	—	—	79,470	15,285	29,950	34,235
—	—	—	—	36,030	—	—	36,030
—	—	—	—	37,925	—	—	37,925
$ 75,000	$ 160,000	$ 182,690	$ 63,750	$ 1,060,745	$ 187,600	$ 373,145	$ 500,000

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2011
(Dollars in Thousands)

	2011	2010	2009	2008	2007
Town of Butner					
Revenue Bonds					
Pledged Revenue-					
Sales and services	(a)	(a)	(a)	(a)	(a)
Rental lease earnings	(a)	(a)	(a)	(a)	(a)
Fees, licenses and fines	(a)	(a)	(a)	(a)	(a)
Miscellaneous revenue	(a)	(a)	(a)	(a)	(a)
Less: Operating expenses	(a)	(a)	(a)	(a)	(a)
Net available revenue	$ —	$ —	$ —	$ —	$ —
Debt service					
Principal	(a)	(a)	(a)	(a)	(a)
Interest	(a)	(a)	(a)	(a)	(a)
Coverage ratio	(a)	(a)	(a)	(a)	(a)
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged Revenue-					
Federal transportation revenues	$ 1,372,359	$ 823,450	$ 1,119,259	$ 904,400	$ —
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 1,372,359	$ 823,450	$ 1,119,259	$ 904,400	$ —
Debt service					
Principal	$ 61,745	$ 49,515	$ 45,745	$ —	$ —
Interest	20,082	17,652	13,585	5,056	—
Coverage ratio	16.77	12.26	18.87	178.87	—
North Carolina Turnpike Authority (b)					
Revenue Bonds					
Pledged Revenue-					
Federal interest subsidy	$ 10,843	$ 7,298	$ —	$ —	$ —
Interest on investments	5,235	4,121	—	—	—
Transfers in - state appropriations	49,000	25,000	—	—	—
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 65,078	$ 36,419	$ —	$ —	$ —
Debt service					
Principal	$ —	$ —	$ —	$ —	$ —
Interest	37,869	15,052	—	—	—
Coverage ratio	1.72	2.42	—	—	—
N.C. Housing Finance Agency					
Revenue Bonds					
Pledged Revenue-					
Interest on investments	$ 6,868	$ 9,803	$ 13,001	$ 21,281	$ 26,088
Interest on mortgage loans	75,118	81,437	86,813	82,913	71,892
Net increase/decrease in fair value of investments	99	(46)	(444)	1,064	1,544
Other revenue	122	189	617	951	65
Less: Operating expenses	(10,073)	(7,416)	(6,062)	(5,542)	(4,868)
Net available revenue	$ 72,134	$ 83,967	$ 93,925	$ 100,667	$ 94,721
Debt service					
Principal	$ 36,480	$ 36,865	$ 18,745	$ 31,050	$ 178,050
Interest	66,778	75,909	43,070	77,665	73,845
Coverage ratio	0.70	0.74	1.52	0.93	0.38

(a) The Town of Butner's Enterprise Funds related to water and sewer was sold
(b) The North Carolina Turnpike Authority expects to collect toll revenues in 2013

Table 14

	2006	2005	2004	2003	2002
	$ 2,377	$ 3,531	$ 3,673	$ 3,936	$ 3,581
	5	3	8	—	—
	8	14	14	13	17
	147	156	106	243	407
	(2,261)	(2,470)	(2,372)	(2,341)	(2,276)
	$ 276	$ 1,234	$ 1,429	$ 1,851	$ 1,729
	$ 270	$ 255	$ 245	$ 235	$ 100
	394	414	419	434	431
	0.42	1.85	2.16	2.77	3.26
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	—	—	—	—	—
	$ 23,718	$ 17,659	$ 17,357	$ 14,687	$ 13,315
	66,515	69,816	74,650	83,045	82,789
	(2,372)	544	—	—	3,926
	444	198	147	92	710
	(4,640)	(4,996)	(4,678)	(4,739)	(5,165)
	$ 83,665	$ 83,221	$ 87,476	$ 93,085	$ 95,575
	$ 175,670	$ 27,967	$ 24,245	$ 21,465	$ 15,762
	70,059	63,242	69,622	74,408	77,487
	0.34	0.91	0.93	0.97	1.03

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2011
(Dollars in Thousands)

	2011	2010	2009	2008	2007
State Education Assistance Authority					
Revenue Bonds					
Pledged Revenue-					
Student loan principal collections	$ 187,443	$ 312,810	$ 346,546	$ 364,274	$ 618,723
Interest earnings on loans	145	29,760	90,594	137,512	151,237
Investment earnings	13,164	518	7,043	18,999	24,551
Less: Operating expenses	(34,322)	(47,318)	(43,273)	(31,381)	(30,290)
Net available revenue	$ 166,430	$ 295,770	$ 400,910	$ 489,404	$ 764,221
Debt service					
Principal	$ 334,538	$ 395,398	$ 224,275	$ 153,589	$ —
Interest	25,958	74,730	129,595	165,517	117,324
Coverage ratio	0.46	0.63	1.13	1.53	6.51
Note Payable/Short term debt					
Pledged Revenue-					
Student loan principal collections	$ 196,320	$ 81,631	$ —	$ —	$ —
Interest earnings on loans	(2,859)	563	—	—	—
Less: Operating expenses	(7,950)	(3,983)	—	—	—
Net available revenue	$ 185,511	$ 78,211	$ —	$ —	$ —
Debt service					
Principal	$ 164,608	$ 61,119	$ —	$ —	$ —
Interest	12,755	5,488	—	—	—
Coverage ratio	1.05	1.17	—	—	—
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services	$ 314,177	$ 314,307	$ 407,862	$ 658,628	$ 614,244
Student tuition and fees	13,859	13,503	15,405	29,221	37,088
Patient services	582,981	561,392	502,062	1,447,635	1,367,363
Contracts and grants	—	—	—	123,469	120,657
State appropriations	3	—	—	53,010	45,674
Fees, licenses and fines	565	89	1,643	10,506	19,814
Rental lease earnings	6,787	5,809	5,989	7,690	29,587
Investment income	944	1,405	5,190	(31,687)	99,337
Federal interest Subsidy	1,559	—	—	—	—
Other operating revenues	463	428	498	13,407	20,318
Non-operating revenues	—	—	—	53,231	50,929
Less: Operating expenses	(760,447)	(745,843)	(802,163)	(2,047,904)	(1,919,133)
Net available revenue	$ 160,891	$ 151,090	$ 136,486	$ 317,206	$ 485,878
Debt service					
Principal	$ 9,900	$ 20,394	$ 19,055	$ 51,272	$ 51,995
Interest	11,746	8,965	15,277	69,315	66,764
Coverage ratio	7.43	5.15	3.98	2.63	4.09

Table 14

2006	2005	2004	2003	2002
$ 660,332	$ 300,827	$ 277,552	$ 214,782	$ 133,041
115,306	80,912	50,037	46,587	55,281
15,174	4,157	2,686	2,450	3,121
(24,627)	(19,395)	(17,603)	(14,781)	(10,692)
$ 766,185	$ 366,501	$ 312,672	$ 249,038	$ 180,751
$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
60,912	25,212	17,736	23,351	36,385
12.38	13.98	16.69	10.23	4.84
$ —	$ —	$ —	$ —	$ —
—	—	—	—	—
—	—	—	—	—
$ —	$ —	$ —	$ —	$ —
$ —	$ —	$ —	$ —	$ —
—	—	—	—	—
—	—	—	—	—
$ 562,332	$ 531,673	$ 513,867	$ 479,714	$ 466,789
36,847	51,657	54,525	54,025	48,773
1,210,356	1,131,038	1,057,614	928,153	949,442
120,513	113,049	104,373	98,371	85,045
44,510	39,334	37,788	37,771	39,092
19,626	13,056	12,413	11,834	9,416
21,182	18,802	17,781	17,470	16,150
31,632	19,121	20,580	53,432	43,196
—	—	—	—	—
30,369	30,133	32,284	38,509	41,003
37,274	39,558	35,688	46,521	39,569
(1,763,826)	(1,653,952)	(1,604,207)	(1,487,632)	(1,460,074)
$ 350,815	$ 333,469	$ 282,706	$ 278,168	$ 278,401
$ 52,696	$ 54,917	$ 54,467	$ 48,520	$ 48,515
66,557	58,146	53,067	53,351	55,104
2.94	2.95	2.63	2.73	2.69

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2006-2011

(Dollars in Thousands)

	2011	2010	2009	2008	2007
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services	$ 2,850	$ 2,814	$ 2,874	$ 2,446	$ —
Student tuition and fees	1,294	1,286	1,329	1,147	1,114
Rental lease earnings	31	26	77	118	—
Investment income	2	3	8	45	44
Less: Operating expenses	(926)	(1,086)	(993)	(895)	(60)
Net available revenue	$ 3,251	$ 3,043	$ 3,295	$ 2,861	$ 1,098
Debt service					
Principal	$ 1,180	$ 1,140	$ 1,105	$ 1,075	$ 905
Interest	1,100	1,144	1,181	1,209	573
Coverage ratio	1.43	1.33	1.44	1.25	0.74
Note Payable					
Pledged Revenue-					
Federal interest subsidy	$ 119	$ 22	$ —	$ —	$ —
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 119	$ 22	$ —	$ —	$ —
Debt service					
Principal	$ —	$ —	$ —	$ —	$ —
Interest	341	64	—	—	—
Coverage ratio	0.35	0.35	—	—	—

Information prior to 2006 is not available.

Table 14

	2006
$	—
	1,090
	—
	19
	—
$	1,109
$	575
	222
	1.39
$	—
	—
$	—
$	—
	—
	—

SCHEDULE OF DEMOGRAPHIC DATA

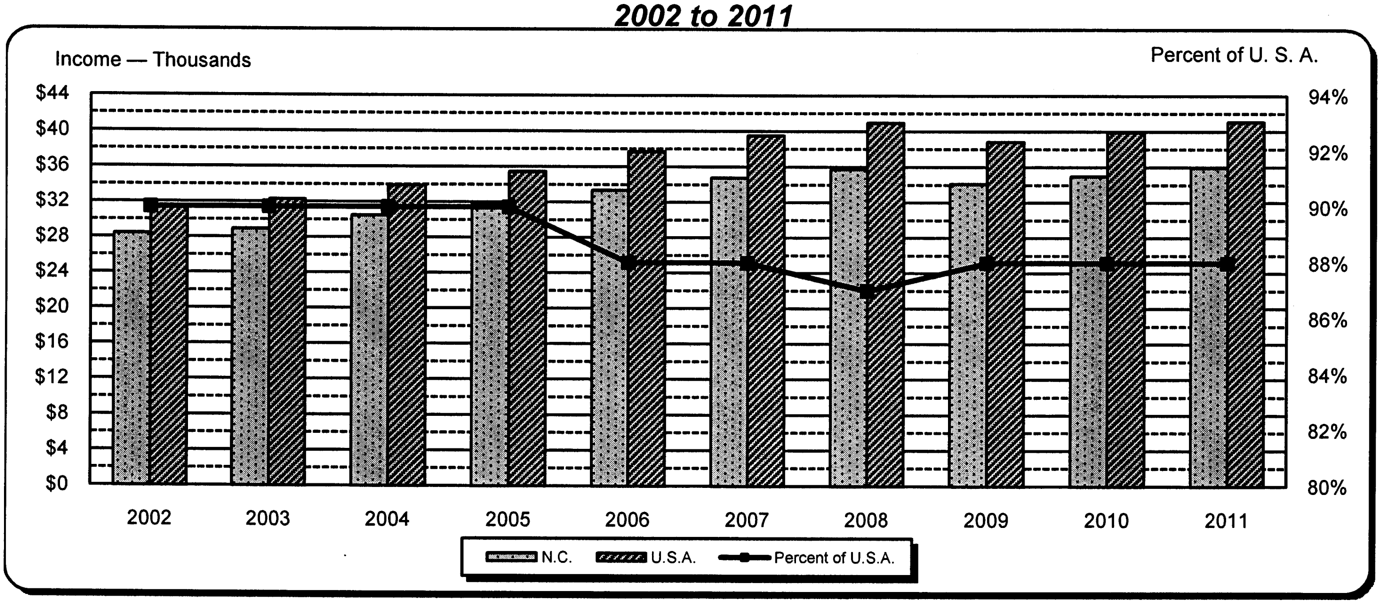
For the Years 1950, 1960, 1970, 1980, 1990, 2000, 2002-2011

	Population [1]				*Per Capita Income* [2]			*Personal Income (millions)* [3]	
Year	United States Population	U.S. Increase from Prior Period	North Carolina Population	N.C. Increase from Prior Period	United States	North Carolina	N.C. as a Percentage of U.S.	United States	North Carolina
2011	310,505,388 [D]	0.57%	9,692,818 [D]	1.65%	$ 41,075 [E]	$ 35,965 [E]	87.56%	$12,754,009	$ 348,602
2010	308,745,538 [F]	0.57%	9,535,483 [F]	1.65%	39,945 [C]	34,977 [C]	87.56%	12,332,841	333,523
2009	307,006,550 [B]	0.86%	9,380,884 [B]	1.45%	38,846 [C]	34,108 [C]	87.80%	11,925,976	319,963
2008	304,374,846 [B]	0.93%	9,247,134 [B]	2.02%	40,947 [C]	35,740 [C]	87.28%	12,463,237	330,493
2007	301,579,895 [B]	1.00%	9,064,074 [B]	2.22%	39,506 [C]	34,761 [C]	87.99%	11,914,215	315,076
2006	298,593,212 [B]	0.96%	8,866,977 [B]	2.28%	37,725 [C]	33,373 [C]	88.46%	11,264,429	295,918
2005	295,753,151 [B]	0.92%	8,669,452 [B]	1.62%	35,452 [C]	31,905 [C]	89.99%	10,485,041	276,599
2004	293,045,739 [B]	0.94%	8,531,283 [B]	1.36%	33,909 [C]	30,480 [C]	89.89%	9,936,888	260,034
2003	290,326,418 [B]	0.88%	8,416,451 [B]	1.20%	32,295 [C]	28,934 [C]	89.59%	9,376,092	243,522
2002	287,803,914 [B]	0.95%	8,316,617 [B]	1.38%	31,481 [C]	28,428 [C]	90.30%	9,060,355	236,425
2000	281,421,906 [A]	3.46%	8,049,313 [A]	5.25%	29,770 [C]	27,055 [C]	90.88%	8,377,930	217,774
1990	248,791,000 [A]	9.82%	6,632,448 [A]	12.79%	19,588	17,295	88.29%	4,873,318	114,708
1980	226,546,000 [A]	11.13%	5,880,095 [A]	15.65%	10,062	8,090	80.40%	2,279,506	47,570
1970	203,849,000 [A]	13.26%	5,084,411 [A]	11.59%	4,072	3,255	79.94%	830,073	16,550
1960	179,979,000 [A]	18.51%	4,556,155 [A]	12.17%	2,254	1,615	71.65%	405,673	7,358
1950	151,868,000 [A]		4,061,929 [A]		1,496	1,037	69.32%	227,195	4,212

[A] - U.S. Census count - April 1 (1950 - 1990)
[B] - U.S. Census estimates based on 2000 census (July 1)
[C] - Bureau of Economic Analysis estimate

[D] - Office of the State Controller estimate
[E] - Since the 2011 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 2011 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2011 Per Capita Income for North Carolina".
[F] - U.S. Census estimates based on 2010 census

Per Capita Income
North Carolina Compared to United States
2002 to 2011



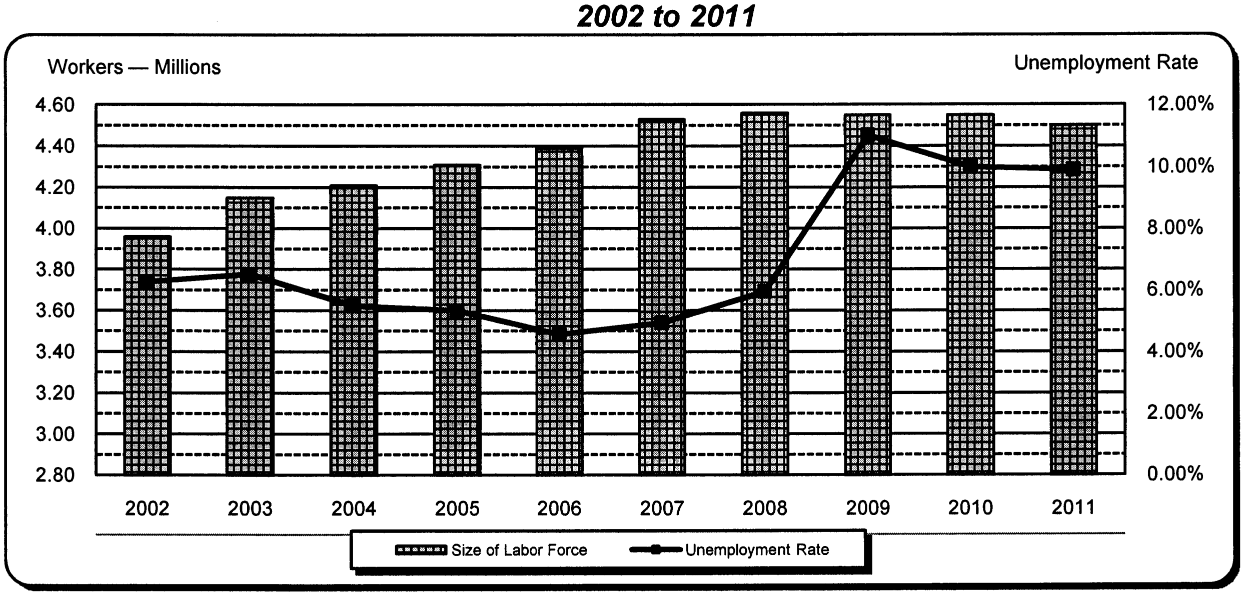
Sources *[1] Population*		*U.S. Department of Commerce, Bureau of the Census*
[2] Per Capita Income		*U.S. Department of Commerce, Bureau of Economic Analysis*
[3] Personal Income		*Calculated from sources 1 and 2*

Table 15

	North Carolina Civilian Labor Force Data			[4]	North Carolina - Other Data	
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	[5] Motor Vehicles Registered	[6] Residential Construction Authorized
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
2003	4,152,243	3,882,026	270,217	6.51%	7,624,272	38,137
2002	3,964,000	3,715,400	248,600	6.27%	7,498,181	40,763
2000	3,941,000	3,805,300	135,700	3.44%	7,112,610	77,351
1990	3,471,000	3,339,000	132,000	3.80%	5,600,050	30,471
1980	2,759,197	2,607,925	151,272	5.48%	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	3,218,292	N/A
1960	1,680,442	1,605,478	74,964	4.46%	1,907,988	N/A
1950	1,512,924	1,463,352	49,572	3.28%	1,171,228	N/A

N/A = Data not available.

Civilian Labor Force Trends With Unemployment Percentages 2002 to 2011



Sources: [4] Seasonally Adjusted Labor Force Data - As of June 30 — *N.C. Employment Security Commission*
[5] Motor Vehicle Registrations - For the Fiscal Year Ended June 30 — *N.C. Division of Motor Vehicles*
[6] Residential Housing Permits — *U.S. Department of Commerce, Bureau of the Census*

PRINCIPAL EMPLOYERS

For the Fiscal Years 2002 & 2011 *Table 16*

Employer	2011 Employees	2011 Rank	2011 Percentage of Total State Employment	2002 Employees	2002 Rank	2002 Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.50%	160,000-164,999	1	4.37%
Federal Government	65,000-69,999	2	1.66%	60,000-64,999	2	1.68%
Wal-Mart Associates, Inc	50,000-54,999	3	1.29%	35,000-39,999	3	1.01%
Duke University	25,000-29,999	4	0.68%	20,000-24,999	5	0.61%
Charlotte Mecklenburg Hospital	25,000-29,999	5	0.68%	10,000-14,999	9	0.34%
Food Lion LLC	20,000-24,999	6	0.55%	25,000-29,999	4	0.74%
Wells Fargo Bank NA	20,000-24,999	7	0.55%	10,000-14,999	8	0.34%
Charlotte-Mecklenburg Board of Education	15,000-19,999	8	0.43%	15,000-19,999	7	0.47%
Wake County Public schools	15,000-19,999	9	0.43%	10,000-14,999	10	0.34%
Lowes Home Centers, Inc	15,000-19,999	10	0.43%	—		—
IBM Corporation	—		—	15,000-19,999	6	0.47%
Total	430,000-479,990		11.20%	360,000-409,990		10.37%

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 Employment Security Commission*

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TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2002-2011

Functions	2011	2010	2009	2008	2007
General government	6,325	6,424	6,362	6,188	6,045
Primary and secondary education	157,380	154,107	163,322	163,113	160,086
Higher education:					
Universities	62,928	61,723	61,299	59,084	56,964
Community colleges	19,746	18,730	17,027	16,480	15,935
Health and human services	20,382	20,919	22,094	21,276	21,128
Economic development	2,767	2,524	2,474	2,558	2,623
Environment and natural resources	4,582	4,607	4,740	4,709	4,653
Public safety, corrections and regulations	33,555	32,657	33,431	32,600	31,971
Transportation	13,550	13,902	14,767	14,752	14,664
Agriculture	1,349	1,366	1,393	1,385	1,405
Totals	322,564	316,959	326,909	322,145	315,474

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2011 are projected from prior year data.

Table 17

2006	2005	2004	2003	2002
5,680	5,435	5,301	5,635	5,635
156,463	152,746	147,798	143,428	140,103
55,800	53,560	51,902	50,787	49,625
15,610	15,764	15,277	14,582	13,959
20,766	20,665	20,366	18,545	18,816
2,567	2,366	2,469	2,466	2,591
4,616	4,493	4,341	4,337	4,750
31,448	30,429	30,125	30,810	30,982
14,007	14,379	14,218	14,438	14,378
1,377	1,339	1,343	1,275	1,295
308,334	301,176	293,140	286,303	282,134

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2011

	2011	2010	2009	2008	2007
General Government					
Department of Revenue					
Number of tax returns filed electronically	4,078,310	4,089,267	3,502,141	3,246,333	2,799,979
Number of tax returns processed	10,596,928	10,898,544	11,336,722	11,258,489	10,386,112
Number of individual refunds direct deposited	1,556,340	1,376,997	1,294,894	1,119,403	925,321
Number of individual refunds processed	3,026,035	3,021,379	3,081,986	3,005,539	2,832,152
Number of pieces of incoming mail	6,012,977	7,219,907	6,897,757	8,636,219	8,092,899
Number of pieces of outgoing mail	8,972,129	8,201,770	8,443,945	9,194,775	7,844,614
Department of Administration					
Construction projects administered	6	16	135	117	61
Construction value excluding design fee (thousands)	$ 35,403	$ 79,906	$ 110,674	$ 52,660	$ 60,028
Cultural Resources					
Visitation to historical sites and museums	2,966,209	2,325,718	2,079,340	2,627,987	2,748,455
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment	1,476,348	1,465,562	1,466,803	1,462,374	1,435,275
Total high school graduates	89,027	89,968	83,618	80,606	88,691
Graduate intention to pursue further education	86.12%	85.19%	85.09%	84.86%	84.63%
Higher Education					
Community Colleges					
Number of students (annualized FTE)	249,934	246,656	215,915	200,000	193,410
Number of certificates and degrees awarded	39,255	33,922	31,203	28,173	27,117
Universities					
Number of regular term students (FTE)	201,147	199,717	193,219	187,791	181,886
Number of certificates and degrees awarded	45,821	43,459	41,924	39,592	38,260
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (a)	1,670,912	1,721,439	1,686,515	1,721,488	1,667,354
Food stamp recipients	1,567,572	1,294,732	1,077,914	924,265	874,426
Clients served by mental health facilities	254,878	240,231	242,586	247,025	254,132
Clients served by developmental disabilities facilities	22,232	21,895	21,653	21,706	21,086
Clients served by substance abuse facilities	83,049	84,768	79,368	59,680	64,880
Children served through subsidized child care	136,564	151,363	150,813	159,457	167,568
Participation in Special Supplemental Nutrition Program	272,806	271,980	273,845	254,120	239,441
Clients served through Work First	47,166	56,186	54,911	53,082	59,340
NC Health Choice annual enrollment	208,563	198,613	194,611	181,685	171,580
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion	22,409	18,326	15,077	11,636	19,259
Capital investment (thousands)	$ 4,151,293	$ 2,653,795	$ 3,433,657	$ 3,600,000	$ 3,336,864
Employment Security Commission					
Total employed	4,055,793	4,089,199	4,052,943	4,288,621	4,309,833
Percentage of unemployment	9.90%	10.00%	11.02%	5.95%	4.94%

Table 18

2006	2005	2004	2003	2002
2,487,716	1,922,459	1,666,765	1,436,218	1,239,844
10,437,669	9,947,817	9,725,620	9,778,591	9,658,531
809,473	673,976	564,200	446,217	N/A
2,834,960	2,732,523	2,658,709	2,654,339	2,595,070
7,986,688	8,334,624	8,122,589	8,222,560	9,061,094
9,206,342	8,687,346	8,922,981	10,098,087	9,332,605
71	226	181	213	205
$ 73,006	$ 873,713	$ 486,287	$ 522,060	$ 359,381
2,068,910	2,356,046	2,465,484	2,234,241	1,326,603
1,368,607	1,346,681	1,325,344	1,303,777	1,285,729
72,580	74,691	71,853	69,568	65,681
87.09%	84.64%	83.26%	83.63%	83.13%
190,644	194,235	192,693	185,490	176,743
28,983	29,600	27,050	23,645	22,853
176,619	158,398	152,224	171,409	141,272
37,348	37,569	36,689	34,580	32,644
1,673,510	1,545,366	1,541,450	N/A	N/A
838,064	818,141	791,241	N/A	N/A
263,628	18,894	16,353	N/A	N/A
20,282	2,172	2,189	N/A	N/A
149,946	3,633	3,572	N/A	N/A
230,140	155,339	156,534	N/A	N/A
63,290	224,670	218,345	N/A	N/A
69,885	39,426	42,177	N/A	N/A
199,160	169,491	N/A	N/A	N/A
20,293	18,246	15,393	9,531	13,459
$ 3,024,914	$ 2,982,292	$ 1,863,213	$ 1,127,466	$ 2,690,123
4,193,971	4,078,645	3,977,421	3,882,026	3,715,400
4.56%	5.33%	5.49%	6.51%	6.27%

Continued

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2011

	2011	2010	2009	2008	2007
Environment and Natural Resources					
Department of Environment and Natural Resources					
Public drinking water systems in compliance	96%	96%	95%	95%	95%
Visitation to Museum of Natural Sciences	675,751	656,234	763,763	727,000	667,014
Visitation to N.C. Zoo	741,119	749,627	729,615	729,500	746,650
Wildlife Resources Commission					
Hunting licenses sold	218,397	213,700	212,361	211,780	204,425
Fishing licenses sold	540,318	543,544	560,282	538,800	511,974
Vessels registered	147,964	151,348	143,071	140,573	142,808
Public Safety and Correction					
Department of Correction					
Incarcerated offenders	41,030	40,102	40,824	39,112	38,218
Supervised offenders	109,326	111,743	114,367	116,927	117,164
Adminstrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court	100.00%	100.00%	97.40%	98.50%	98.50%
Cases disposed as a % of cases filed-District Court	100.00%	100.00%	100.00%	98.28%	98.70%
Agriculture					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (b)	99,273	121,897	99,461	98,736	100,928
Rejection rate	9.93%	10.77%	10.29%	12.73%	13.80%
Retail scales tested (c)	28,925	33,331	33,329	24,640	20,051
Rejection rate	7.63%	11.10%	11.11%	10.51%	10.70%

Notes:

(a) 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.

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

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

Table 18

2006	2005	2004	2003	2002
94%	93%	94%	93%	95%
622,915	556,422	913,751	518,132	517,058
682,977	705,030	676,956	576,093	671,619
204,451	107,242	107,572	109,511	114,304
451,412	331,688	329,314	302,581	343,045
363,641	354,096	361,134	354,863	358,007
37,121	36,481	34,990	33,378	32,856
116,513	117,611	117,196	118,285	117,374
93.80%	95.52%	96.27%	93.40%	94.28%
98.10%	97.56%	95.92%	97.46%	96.76%
109,699	95,735	103,026	80,390	85,353
10.77%	8.87%	7.22%	9.25%	9.99%
24,896	27,678	23,335	29,021	24,021
8.28%	9.09%	8.70%	7.54%	7.07%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2011

	2011	2010	2009	2008	2007	2006
Primary Government						
General Government						
Department of Administration						
Buildings	117	129	129	129	135	136
Parking lots	25	76	23	49	49	49
Parking spaces	8,314	8,813	7,408	8,477	8,215	8,156
Motor Fleet vehicles	8,145	8,341	8,784	9,090	9,506	10,785
Health and Human Services						
Mental Health Institutions	11	12	13	12	12	12
Number of certified beds	4,331	4,688	4,346	4,932	4,961	5,009
Environment and Natural Resources						
Department of Environment and Natural Resources						
Number of state park lands	35	35	35	34	33	32
Acres of state park lands	150,807	148,897	144,806	140,254	119,664	222,251
Number of state recreation areas	4	4	4	4	4	4
Acres of state recreation areas	12,240	12,240	12,240	12,240	12,240	12,240
Number of state natural areas	20	19	19	17	18	14
Acres of state natural areas	22,145	20,833	20,910	20,281	34,288	32,930
Number of state lakes	7	7	7	7	7	7
Acres of state lakes	29,135	29,135	29,135	29,135	29,135	29,135
Zoo animals (a)	1,355	1,569	1,565	1,723	1,786	1,942
Vehicles	1,980	1,947	1,912	1,862	1,789	1,723
Boats/Trailers	1,480	1,416	1,390	1,325	1,295	366
Aircraft	40	47	47	48	45	30
Scientific equipment	5,467	5,262	5,058	4,702	4,666	4,454
Wildlife Resources Commission						
Number of Game Lands	62	61	59	58	54	38
Acres of Game Lands	480,257	475,212	468,570	471,248	431,449	341,351
Public Safety and Correction						
Department of Correction						
Close security prisons	14	14	14	13	13	13
Medium security prisons	23	23	26	26	26	26
Minimum security prisons	33	33	39	39	39	39
Vehicles:						
Passenger/Cargo vans	104	106	116	129	170	99
Inmate transfer vans/buses	454	569	472	497	448	481
Inmate workcrew vans/buses	243	276	291	306	274	301
Pickup trucks	306	310	308	309	305	287
Roving patrol pickups	92	103	89	100	80	84
One ton maintenance trucks	94	114	107	103	105	105
Specialty/Other trucks (b)	125	115	110	125	109	103
Enterprise Vehicles:						
Passenger/Cargo vans	17	18	22	23	22	23
Inmate workcrew buses	23	25	26	28	24	21
Pickup trucks	49	54	59	52	51	47
One ton maintenance trucks	21	22	22	20	18	18
Other/Specialty trucks	103	101	103	104	98	93

Table 19

2005	2004	2003	2002
134	132	132	132
17	18	20	N/A
7,879	7,961	8,249	N/A
16,145	14,592	13,190	13,098
12	12	12	12
4,885	5,083	5,220	5,390
32	30	30	30
182,251	176,146	173,833	172,763
4	4	4	4
12,240	12,240	12,240	12,238
17	17	16	14
30,513	30,323	28,999	27,643
7	7	7	7
29,135	29,135	29,135	29,135
2,024	2,643	2,411	2,059
1,618	1,574	1,471	1,403
327	308	278	254
40	40	39	39
3,979	3,572	3,366	3,155
37	35	34	33
317,467	325,794	288,238	294,471
13	16	13	13
26	24	24	24
37	36	36	39
85	69	67	61
418	398	391	386
380	394	349	351
275	325	248	277
78	77	64	55
92	98	99	112
113	108	103	94
24	31	29	30
22	21	25	28
51	41	45	41
16	21	18	21
95	86	91	88

Continued

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2011

	2011	2010	2009	2008	2007	2006
Department of Crime Control and Public Safety						
Vehicles:						
Alcohol Law Enforcement						
Cars/SUV's	174	156	156	150	151	156
State Highway Patrol						
Cars	2,422	2,692	2,692	2,722	2,530	2,417
Trucks/Vans	126	128	128	111	115	114
Motorcycles	25	19	19	16	16	9
Air craft:						
State Highway Patrol						
Helicopters	7	8	8	8	8	13
Transportation						
Department of Transportation						
Pavement in lane-miles:						
Primary subsystem	(d)	14,952	14,919	14,885	14,871	14,833
Secondary subsystem	(d)	64,378	64,267	64,553	64,390	64,209
Bridges:						
Number of bridges	13,531	13,251	13,222	13,152	13,053	13,007
Number of culverts	4,730	5,056	5,007	5,004	4,979	4,912
Vehicles	8,337	8,422	9,349	8,850	8,850	5,823
Heavy Equipment	12,703	12,647	13,216	12,116	8,920	3,119
Component Units						
Higher Education						
Community Colleges						
Buildings	1,161	1,134	1,097	1,046	1,024	1,014
Universities						
Academic/Administrative buildings	993	962	933	911	971	930
Dormitories/Auxiliary buildings	654	640	560	523	613	583
Medical (e)	31	37	39	58	58	51
University System Hospitals						
Administration	4	4	4	4	4	4
Clinical	12	11	12	11	11	10
Facility services	6	6	6	6	6	6
Hospital	6	6	5	4	4	4

Notes:

(a) 500-600 fish were lost due to aquarium malfunction in 2005.

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

(c) Prior year data from the source was not available.

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

(e) East Carolina Teaching Hospital

Table 19

2005	2004	2003	2002
134	154	124	127
2,283	2,312	1,799	1,846
59	63	65	99
(c)	(c)	(c)	(c)
14	11	11	11
14,805	14,760	14,705	14,670
64,204	64,085	63,910	63,820
12,961	12,916	12,839	12,806
4,879	4,761	4,683	4,620
6,347	7,466	7,015	6,182
3,359	3,788	3,741	3,448
1,025	1,064	1,054	1,043
918	893	873	866
565	537	524	510
51	51	51	51
4	4	4	3
10	10	10	10
6	6	6	6
4	4	4	4

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 2002-2011

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, 2002-2011 *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.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1) Required contribution and investment revenue:										
Earned	$ 9,599	$ 12,255	$ 10,826	$ 16,219	$ 12,538	$ 14,509	$ 18,430	$ 18,054	$ 20,337	$ 16,257
Ceded	2,839	3,396	3,121	2,380	2,489	3,077	2,371	3,642	3,852	3,576
Net earned	6,760	8,859	7,705	13,839	10,049	11,432	16,059	14,412	24,189	19,833
2) Unallocated expenses	3,597	3,953	3,689	2,951	3,092	3,672	664	680	659	666
3) Estimated claims and expenses, end of policy year:										
Incurred	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340
Ceded	—	—	—	—	—	—	—	—	—	—
Net incurred	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340
4) Paid (cumulative) as of:										
End of policy year	392	1,921	10,381	3,129	3,130	15,174	1,426	1,746	1,502	5,505
One year later	640	2,765	12,788	3,536	4,005	19,270	2,016	2,149	2,082	
Two years later	640	3,219	13,120	3,536	4,005	19,270	2,016	2,149		
Three years later	640	3,681	13,120	3,536	4,005	19,270	2,016			
Four years later	640	3,681	13,120	3,536	4,005	19,270				
Five years later	640	3,681	13,120	3,536	4,005					
Six years later	640	3,681	13,120	3,536						
Seven years later	640	3,681	13,120							
Eight years later	640	3,681								
Nine years later	640									
5) Reestimated ceded claims and expenses										
6) Reestimated net incurred claims and expenses:										
End of policy year	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340
One year later	4,846	3,543	12,911	2,093	3,096	11,348	1,653	2,276	1,846	
Two years later	4,846	3,947	12,911	2,093	3,096	11,348	1,979	2,269		
Three years later	4,846	3,947	12,911	2,093	3,096	11,348	1,979			
Four years later	4,846	3,947	12,911	2,093	3,096	11,348				
Five years later	4,846	3,947	12,911	2,093	3,096					
Six years later	4,846	3,947	12,911	2,093						
Seven years later	4,846	3,947	12,911							
Eight years later	4,846	3,947								
Nine years later	4,846									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	—	1,257	325	—	—	(3,567)	261	16	63	—

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North Carolina Office of the State Controller
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