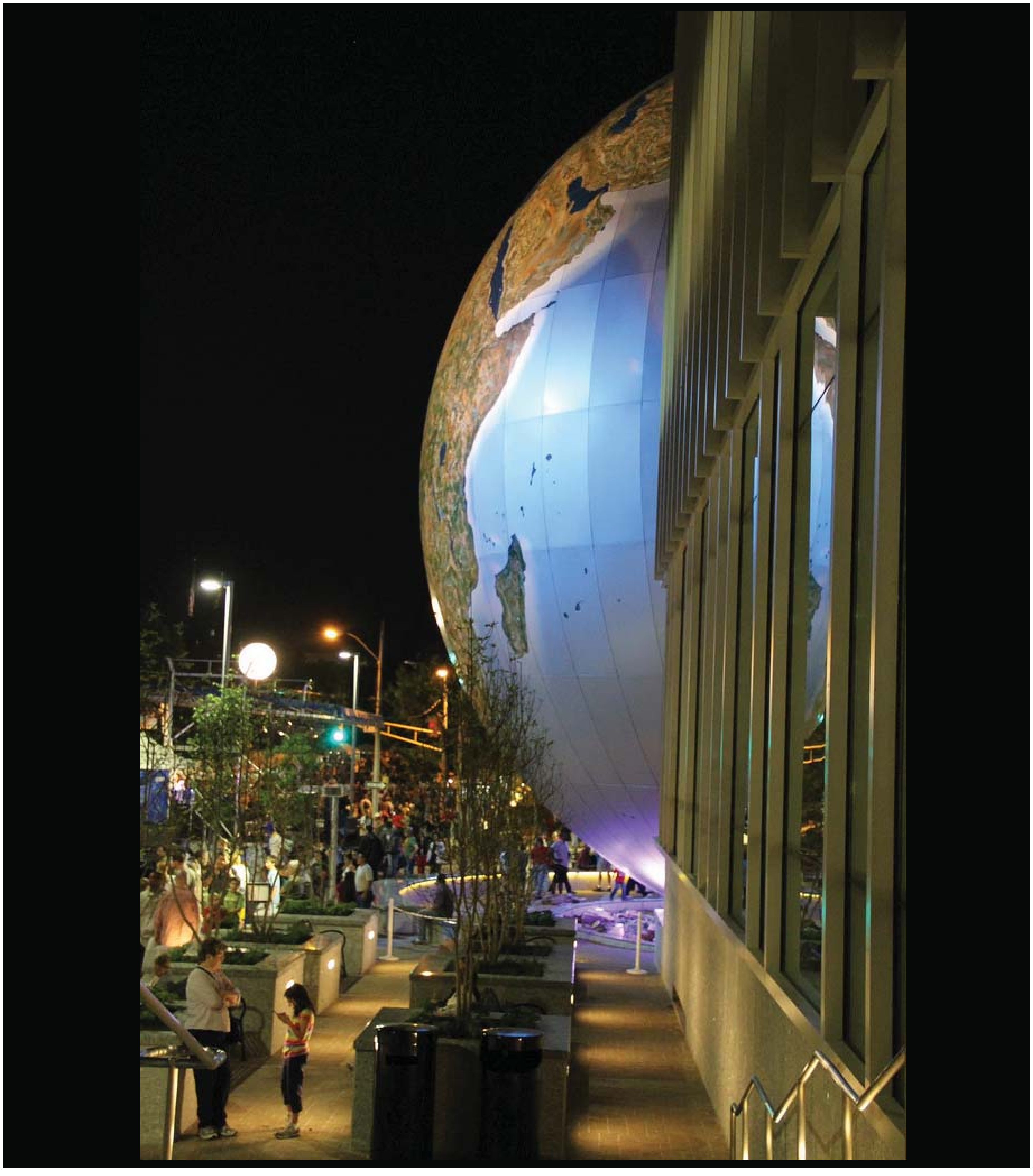
North Carolina



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2012

About the Cover Photo

Thousands of people, including those seen here, visited downtown Raleigh in April 2012 for the grand opening of the Nature Research Center (NRC) – the new wing of the North Carolina Museum of Natural Sciences. The NRC, with its iconic Daily Planet (the large globe pictured), brings research scientists and their work into the public eye, helps demystify an often intimidating field of study, better prepares science educators and students and inspires a new generation of young scientists. The new wing opened after a successful public/private capital campaign.

The Museum of Natural Sciences, founded in 1879 by the North Carolina General Assembly, is the largest museum of its kind in the Southeast. The museum, which received more than 1 million visitors in 2012, brings science to the people, locally and globally, inspiring creative thinkers and innovators. The main museum opened in 2000. In fiscal year 2012, the museum received nearly $1 million in competitive research grants.

Photo courtesy of NC Department of Environment and Natural Resources

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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
Statewide Accounting Division of the North Carolina Office of the State Controller.

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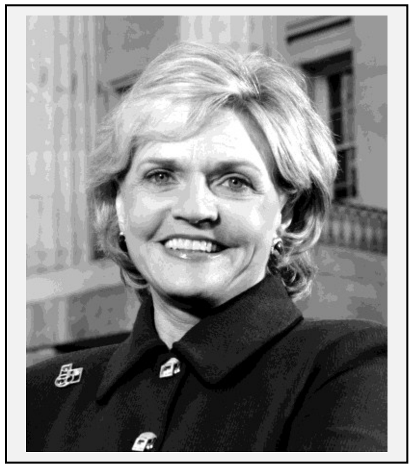
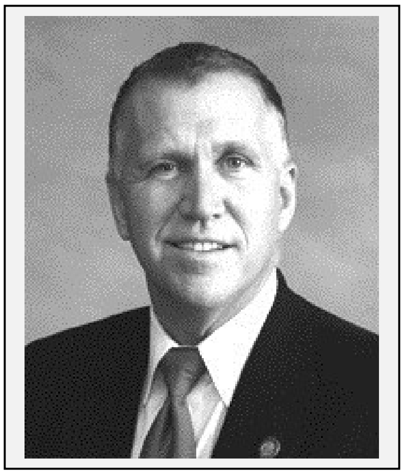
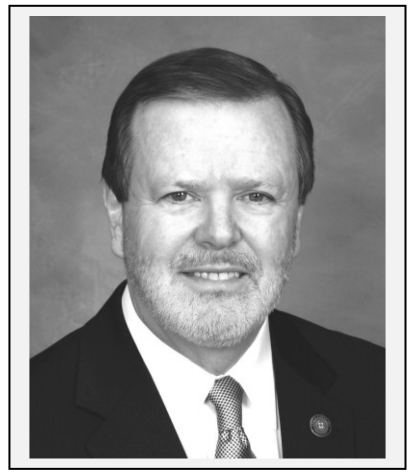
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.



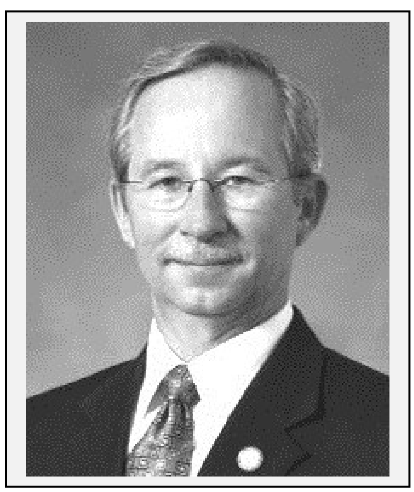
BEVERLY E. PERDUE
Governor of North Carolina



REPRESENTATIVE THOM TILLIS
Speaker of the House
North Carolina General Assembly



SENATOR PHILIP BERGER
President Pro Tempore
North Carolina General Assembly



DAVID T. MCCOY
State Controller

TABLE OF CONTENTS

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

INTRODUCTORY SECTION

FINANCIAL SECTION

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Required Supplementary Information

Combining Fund Statements and Schedules

Nonmajor Governmental Funds

Proprietary Funds

Nonmajor Enterprise Funds

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

STATISTICAL SECTION

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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 2012 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 9.78 million, making it the 10th most populated state in the nation. Ninety-two percent of the State's population lives in metropolitan areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on our western border. There are 79,415 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 primary and secondary education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture and consumer services; 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 2011-12, the economy continued along the path of a steady, yet slow-moving, recovery from the Great Recession. Economic conditions in the State, as well as the nation, reflect a modestly improving economy. The slow-paced recovery has not been sufficient to improve economic conditions to levels experienced prior to the recession. During the fiscal year, growth in overall economic activity in the State improved, but remained below average. Despite the modest improvement in economic activity, employment struggled to gain solid-footing. The State’s economy did add 59,600 jobs. This still left total employment in the State with 115,000 fewer jobs than the peak prior to the recession.

As we now know, the structural problems in the housing and financial markets that sent us into a recession have taken a long time to correct and have resulted in a much slower, prolonged recovery phase. During the fourth quarter of 2011, it appeared the slow recovery phase was poised to move into a full expansionary economy as the nation’s Gross Domestic Product (GDP is a broad measure of economic activity) rose above the long-run average rate of growth. However, at the start of 2012, global and domestic economic problems became too difficult to overcome and the economy fell back to below average growth. Given the mixed signs of a recovery, both employers and consumers remained cautious.

During the fiscal year, the State’s improvement in the overall economy led to a 3.4 percent increase in wage and salary income. Growth in total wage and salary income increased by 4.3 percent the first quarter of the fiscal year, but slowed to 2.9 percent growth in the last quarter ending June 2012. Both employment and income are anticipated to continue improving for the rest of 2012, although at a slower than normal pace. Stronger growth in these two key components is not expected until at least the second half of 2013.

National Economic Outlook

United States Economic Indicators

	FY2010-11 Actual	FY2011-12 Actual	FY2012-13 Projected	FY2013-14 Projected
Economic growth (GDP)*	1.9%	2.3%	2.2%	3.5%
Personal Income	5.5%	3.7%	4.9%	5.6%
Corporate Pre-Tax Profits	9.1%	8.6%	9.3%	5.3%
Retail Sales and Food Services	6.9%	6.8%	4.1%	4.6%
CPI	2.0%	2.9%	2.1%	2.6%
30-yr Fixed Mortgage Interest Rate	4.6%	4.0%	3.8%	5.2%

*Adjusted for inflation

The aftermath of the global financial crisis continued to affect economies worldwide. This was especially true in the Eurozone where sovereign debt problems escalated during the fiscal year. Additionally, the persistent weakness in the nation's housing market, assured that weak economic conditions in the US would continue. As a result, the economy remained in a below-normal growth pattern throughout most of the fiscal year. The nation's outlook for the remainder of 2012 and most, if not all, of 2013, is for subpar economic growth.

Economic indicators convey the moderate pace of growth in the nation during the fiscal year. The overall economy experienced below average growth recording only a 2.3 percent increase in GDP. The economy appeared poised to move into a stronger recovery phase with annualized growth in GDP the first quarter of 2012 of 2.8 percent. By the next quarter, rather than accelerating, growth had slowed to 2.3 percent.

The ongoing problems in the global economy mean the nation's economy will struggle to gain momentum, and in FY 2012-13, is expected to grow by only 2.2 percent. The following fiscal year economic activity is expected to grow 3.5 percent, surpassing the long-run average rate of growth of 3.1 percent. The below average growth during 2012 and into 2013 means significant improvements in employment will take longer to develop. During the fiscal year, total personal income in the nation rose by 3.7 percent. Further advancements in the economy are projected to push personal income growth to 4.9 percent in FY 2012-13.

Additionally, given the persistently slow recovery, business profitability, which saw a major rebound in 2009 and 2010, leveled-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 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 continued strong growth in FY 2011-12. Consumers were hit hard during the economic downturn as household wealth declined, credit markets tightened, inflation-adjusted wages fell, and the employment picture darkened. These problems have improved, but continue to persist, and consumer spending is expected to soften in the following two fiscal years. Until the real estate and financial markets fully stabilize and the employment picture shows solid improvement, consumers may remain reluctant to increase their spending.

To summarize the national outlook, the global concerns about the fiscal health of many European nations along with the nation's struggles to repair the financial damage caused by the Great Recession impacted 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 problems plaguing many industrialized nations. Thus, any chance for a full recovery was dragged down by these debt problems. This set the stage for a slow, difficult recovery where economic conditions were marked by a high rate of unemployment and moderate consumer spending.

Conditions are improving, but the slow recovery pattern is expected for at least another year. A robust, expansionary economy is not anticipated until sometime toward the end of 2013 at the earliest. That would be over four years after the Great Recession had technically ended.

North Carolina Economic Outlook

North Carolina Economic Indicators

	FY2010-11 Actual	FY2011-12 Actual	FY2012-13 Projected	FY2013-14 Projected
State Gross Product	2.7%	4.2%	5.2%	5.9%
Personal Income	4.4%	3.2%	4.3%	6.4%
Wages & Salaries	3.2%	3.4%	5.5%	7.8%
Retail Sales	7.2%	8.0%	5.6%	5.8%
Unemployment Rate	10.6%	10.1%	9.4%	8.8%
Employment (Nonagricultural)	0.9%	0.9%	1.4%	2.1%
Existing Single-family Home Sales	-17.4%	33.2%	19.5%	9.7%

For North Carolina, as with the nation, the economy has picked up pace, but not enough to eliminate the employment losses from the economic downturn. Economic indicators for the fiscal year, point to growing improvements across the State. The State's economy continued to add private sector jobs. These employment gains were offset as State and Local governments continued to reduce employment as their revenues remained well below pre-recession peaks. Despite adding 59,600 jobs during the fiscal year, there were still nearly 115,000 fewer people employed in the State than at the start of the recession. Some private sector industries experienced modest growth, but employment in sectors tied to the housing market such as construction and home furnishings showed little improvement. Along with the gains in employment, total salary income continued to improve growing 3.4 percent.

Projections for the State's key economic indicators reflect how the recovery in the State is expected to unfold. Gross State Product, a broad measure of the State's economic activity is expected to return to the long-run average rate of growth in FY 2012-13. Total personal income growth moderated in FY 2011-12, but is expected to show marked improvement over the next two fiscal years. For the fiscal year, income rose 3.2 percent, but the increase lags behind the strong growth of six to seven percent experienced in the years prior to the onset of the recession. Wage and salary income, a component of total personal income, grew at a modest 3.4 percent for the fiscal year. The rise in wage and salary income was consistent with the increase in total employment. Going forward, improved growth in total income is projected. This growth will result from a continually improving employment situation, which includes increased wages, as well as, an increase in the number of hours worked. A return to long-term growth levels in wage and salary income is forecast for 2013.

As with the nation, the recovery only gained a moderate degree of momentum during FY 2011-12. This meant fewer jobs were being created and the unemployment rate at the end of the fiscal year was elevated at 9.4 percent. That compares to the 9.9 percent at the start of the fiscal year. Despite a slow-growth economy and high unemployment, retail sales improved with 8 percent growth. The growth, while impressive, represents consumers catching-up from the significant declines in consumer spending during the recession and the first year of the recovery. Going forward, retail sales are expected to mirror the gradual improvement of the economy, increasing at a pace consistent with the long-term average growth rate of 5 percent.

As the State's economy continues along a path of gradual improvement, employment prospects are expected to improve, but a robust employment climate is not projected until 2013. Even with improving employment conditions, growth will be slow and the unemployment rate will remain elevated in the 9 percent range. By the end of calendar year 2012, most industry sectors are expected to experience growth over the previous year with net employment growth of 1.6 percent. The construction industry is one of the few key industries expected to have employment losses in 2012. For 2013, modest improvement in all industries is expected, increasing non-agricultural employment by 2.1 percent. This level of growth will slowly bring down the unemployment rate. The rate is projected to average 9.4 percent in FY 2012-13, and 8.8 percent in FY 2013-14.

The State's manufacturing sector is always vulnerable to economic downturns and job losses in this industry sector reached double-digit losses in the last recession. During this fiscal year, the manufacturing sector added only 1,700 jobs (0.4 percent growth) and employs 96,000 fewer people than at the start of the recession. Another hard hit industry was 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 in 2012, growth is expected to reach 3.6 percent.

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 in FY 2010-11 sales were off by 17.4 percent. Housing data began to show steady improvements in 2011, and a relatively strong rebound in housing is expected over the next two years. Nonetheless, for 2012, sales of existing homes are projected to remain twenty-five percent below what they were in 2006.

The slow, steady economic recovery that persisted throughout FY 2011-12, has the State's economy on more solid footing. Ongoing weakness in the global economy has been a drag on the pace of the economic recovery, both for the nation and the State, and continues to pose a risk for economic growth. A return to a full expansionary economy fueling stronger employment gains is not projected until 2014, nearly five years after the recession technically ended. Until then, the housing market should maintain its gradual improvement, and steady growth in household income and consumer spending are anticipated.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
North Carolina General Assembly, Fiscal Research Division
October 19, 2012

Facts and Figures

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family. The State was recently ranked as the nation's "Top Business Climate" for 2012 according to *Site Selection* magazine. It is the tenth time in the last 12 years the State has taken the top honor in the annual selection by the magazine. In addition, North Carolina is consistently ranked among the best business climates in the nation by CNBC, *Forbes* and *Chief Executive*.

Some pertinent data are below. Additional detail may be found in the statistical tables which are in the last section of the report. Detailed information on the State's retirement plans may be found in Note 12.

- North Carolina's population has grown by 1.46 million, or 17.6 percent over the last 10 years.
- Road lane miles have grown by 1,065 miles, or 1.4 percent since 2001, with an additional 777 bridges since 2002.
- State Highway Patrol vehicles have increased from 1,956 in 2002 to 2,373 in 2012.
- Private vehicles registered have grown from 7.5 million in 2002 to 8.74 million in 2012, an increase of 16.6 percent over the last 10 years.
- K-12 public school enrollment has increased by 15.2 percent over the last ten years, from 1.286 million in 2002 to 1.482 million in 2012.
- University enrollment has increased by 59,114, or 41.8 percent over the last 10 years.
- Community college enrollment has increased by 63,595, or 36 percent over the last 10 years.
- Medicaid beneficiaries have grown by 330,829, or 21.5 percent over the last 8 years.
- Food stamp recipients have increased by 1,322,407, or 167.1 percent over the last 8 years.
- Incarcerated adult offenders have increased by 5,529 or 16.8 percent, while supervised adult offenders have decreased by 14,211 or 12.8 percent over the last 10 years.
- The number of employed has grown by 500,614, or 13.5 percent over the last 10 years. However, the number of unemployed has grown as well by 190,773, or 76.7 percent. In 2012, the unemployment rate is 9.4 percent; in 2002 it was 6.3 percent.
- Positions funded by the State budget have increased overall by 40,257, or 14.3 percent over the last ten years. The largest areas of position growth occurred in education: primary and secondary education, 22,021 (15.7 percent growth); universities, 11,883 (23.9 percent growth); community colleges, 5,552 (39.8 percent growth). In contrast, health and human services experienced a decrease of 474 positions, a 2.5 percent decrease over the last eight years.
- 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 112,490 in 2002, to 171,786 in 2012, an increase of 59,296, or 52.7 percent. Active employees included in TSER have grown to 317,906, a 6.9 percent increase during the same period. There are an additional 110,686 former employees that will be eligible for retirement benefits in the future.
- State debt has increased from $3.49 billion in 2002, to $8.94 billion in 2012, an increase of $5.45 billion, or 156.1 percent over the last ten years. Debt per capita has grown from $420 per capita to $914 per capita during the same period.
- The taxpayer burden related to individual income tax has shifted by 10.8 percent from those earning less than $75,000 in taxable income, to those earning more than $75,000 from 2001 to 2010.
- The average effective state individual income tax rate for 2010 was 2.8 percent and has ranged from 2.7 to 3.4 percent between 2001and 2010.

Long-term Financial Planning and Major Initiatives

Other Postemployment Benefits

For the State retiree healthcare benefit, the December 31, 2011 actuarial valuation using the projected unit credit cost method indicated an accrued liability of $30.339 billion for the retiree healthcare plan ($29.61 billion unfunded), with an annual required contribution (ARC) of $2.48 billion. This represents an improvement of approximately $3.192 billion in the total and unfunded liability and over $400 million in the ARC from last year's valuation. The State has taken action to address the liability including changing vesting periods, transitioning to a prescription drug benefit plan through an approved Employer Group Waiver Plan and initiating longer term investment strategy for excess funds.

Legislatively Mandated Agency Consolidations

Effective January 1, 2012, a new Department of Public Safety was created by the consolidation of three agencies: Department of Correction; Department of Crime Control and Public Safety; and Department of Juvenile Justice and Delinquency Prevention. The consolidation was enacted to streamline government and save costs related to administration and staff. This merger reduced the number of cabinet secretaries appointed by the Governor from 10 to 8. Executive management positions were eliminated in each of the three agencies for a total savings of 34 full-time equivalent positions and $1.9 million in fiscal year 2012. As the consolidation process moves forward additional savings are anticipated in areas such as purchasing and training. The structure of the new agency maintains separation between the juvenile and adult systems while allowing coordination of administrative and facility management functions. Juvenile Justice and Delinquency Prevention is now included with the public safety, corrections, and regulation function whereas in prior years it was included with the health and human services function.

Other significant changes mandated for fiscal year 2012 were as follows. Effective January 1, 2012, the State Health Plan, a discretely presented major component unit, was transferred to the Department of State Treasurer. The transfer gave the State Treasurer oversight for the State Health Plan and the authority to appoint the Executive Administrator of the State Health Plan as well as fill any vacancy in the office of the Executive Administrator, after consultation with the Board of Trustees. In another conversion, the Employment Security Commission was merged with the Department of Commerce to align the employment security functions of state government under the direct leadership of the Secretary of Commerce. The legislation directing this merger also made substantive and conforming changes to the employment security laws. Another major move was the transfer of the Division of Forest Resources and the Forestry Council from the Department of Environment and Natural Resources to the Department of Agriculture and Consumer Services. With this transfer, all Forestry related care and work responsibilities became part of the agriculture function whereas in prior years they were included with the environment and natural resources function. Finally, the N.C. State Ports Authority and the N.C. Global TransPark Authority, two nonmajor discretely presented component units, were realigned within the Department of Transportation. Both agencies were required to convert to the State human resources and budgeting/accounting systems and were placed under the direct oversight of the Secretary of Transportation. In summary, for all of these consolidations, the vision was to bring about a more streamlined and focused State government.

These agency conversions were accomplished by the collaboration of staff at the affected agencies with assistance from central manager agencies including the Office of State Budget and Management, the Department of State Treasurer and the Office of the State Controller. We express our deepest gratitude to all the agency personnel involved for their hard work and dedication in accomplishing these conversions in an effective and timely manner.

Relevant Financial Policies

Savings Reserve Account

General Statute 143C-4-2 established the Savings Reserve Account as a reserve in the General Fund. The State Controller "shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year."

The Savings Reserve Account is a component of the unappropriated General Fund balance. 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 8% of the prior year's General Fund appropriation budget.

At the beginning of fiscal year 2011-12, the balance of the Savings Reserve Account was $295.6 million. In accordance with Session Law 2012-142 the State Controller was directed to transfer $123.2 million from the unreserved fund balance to the Savings Reserve Account on June 30, 2012, bringing the balance to $418.8 million. This represents 2.2% of the prior year's General Fund appropriation budget.

Debt Affordability Study

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming 10 fiscal years.

The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year. The report serves as a tool for sound debt management practices by the State of North Carolina. In February 2012, the Committee completed the most recent debt affordability study for the State. 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.

The Committee's adopted guidelines attempt to strike a balance between providing sufficient debt capacity to allow for the funding of essential capital projects and imposing sufficient discipline so that the State does not create a situation that results in the loss of future budgetary flexibility and deteriorating credit position. The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt that the State could prudently authorize and issue over the next ten years:

1. Net tax-supported debt service as a percentage of general tax revenues should be targeted at no more than 4% and not exceed 4.75%;
2. Net tax-supported debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3.0%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity. The results of the Committee's 2012 study indicate the ratio of debt service to revenues will peak at 4.07%, slightly above the 4% target, improving markedly thereafter.

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, 2011. This was the 18^{th} consecutive year (1994 to 2011) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

Acknowledgments

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

Respectfully submitted,

David T. McCoy

David T. McCoy
State Controller

December 3, 2012

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, 2011

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.

Linda C. Davison

President

Jeffrey R. Esser

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.

Commerce
J. Keith Crisco

Cultural Resources
Linda A. Carlisle

Environment & Natural Resources
Dee Freeman

Health and Human Services
Albert A. Delia
Acting Secretary

Public Safety
Reuben F. Young

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 Pro Tempore
Philip Berger

Deputy Pres. Pro Tempore
Harris Blake

Majority Leader
Harry Brown

Minority Leader
Martin L. Nesbitt, Jr.

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

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

INDEPENDENT AUDITOR'S REPORT

The Honorable 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, 2012, 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 31 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Turnpike Authority, which is a major enterprise fund and represents 45 percent and 0.59 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 2 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 14 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 Authority, the University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare, and the Supplemental Retirement Income Plan of North Carolina were not audited in accordance with *Government Auditing Standards*. An audit 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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, 2012, and the respective changes in financial position and, where applicable, cash flows 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. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions* during the year ended June 30, 2012.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 3, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The combining fund financial statements and schedules, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of other auditors, the combining fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 3, 2012

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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, 2012. 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 $1.604 billion or 4.74% as a result of this year's operations. Net assets of governmental activities and business-type activities increased by $1.402 billion (or 4.09%) and $201.301 million (or 42.87%), respectively. At year-end, net assets of governmental activities and business-type activities totaled $35.679 billion and negative $268.284 million, respectively.

— Component units reported net assets of $20.167 billion, an increase of $1.043 billion or 5.45% 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 decreased 13.58% to $1.022 billion at June 30, 2012. The decrease is due to the expiration of temporary taxes and significant growth in Medicaid expenditures.

— The fund balance of the Highway Fund increased 9.85% to $629.073 million at June 30, 2012. The fund balance increase is attributable, in part, to the issuance of $179.54 million in grant anticipation revenue vehicle bonds.

— The fund balance of the Highway Trust Fund increased from $262.161 million at June 30, 2011 (as restated) to $381.729 million at June 30, 2012, an increase of 45.61%.

— The Unemployment Compensation Fund reported net assets of negative $1.969 billion at June 30, 2011 compared to negative $1.909 billion at June 30, 2012. The improvement in net assets is attributable to the drop in the State's unemployment rate.

— Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 9.38% from the previous fiscal year to $1.596 billion. As required by law, the Lottery's net profit of $459.469 million was transferred to the General Fund to support educational programs.

— The net assets of the N.C. Turnpike Authority increased from $190.34 million at June 30, 2011 to $270.357 million at June 30, 2012. The Triangle Expressway System, the State's first modern toll road, is under construction. The project is approximately 80% complete, with a 5.9% estimated savings from the initial financial plan.

Capital Assets:

— The State's investment in capital assets (net of accumulated depreciation) was $42.092 billion, an increase of 4.9% from the previous fiscal year-end.

— This year's major capital asset additions were for State highway system construction ($1.9 billion), toll road construction ($325.5 million), and construction of a psychiatric hospital ($50.3 million). Also, the State completed and placed into service a new regional medical and mental health center at Central Prison and the Green Square Complex.

Long-term Debt:

— The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of $8.916 billion, an increase of 5.38% from the previous fiscal year-end. The State issued $400 million in limited obligation bonds and $179.54 million in GARVEE bonds for its governmental activities. Additionally, the N.C. Turnpike Authority, a business-type activity, issued $214.51 million in State appropriation revenue bonds and $145.54 million in GARVEE bonds.

— In November 2011, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 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 50) 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 52 and 53) 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 74. 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 159 and 160).

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 186 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 72 of this report.

Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 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 $1.604 billion or 4.74% over the course of this fiscal year's operations. The net assets of the governmental activities increased $1.402 billion or 4.09% and business-type activities increased $201.301 million or 42.87%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2012 and 2011
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2012	2011 (as restated)	2012	2011 (as restated)	2012	2011 (as restated)	2012-2011
Current and other non-							
current assets..........................	$ 8,958,890	$ 8,911,882	$ 3,302,000	$ 2,901,625	$ 12,260,890	$ 11,813,507	3.79%
Capital assets, net........................	41,030,462	39,388,292	1,061,581	738,518	42,092,043	40,126,810	4.90%
Total assets...............................	49,989,352	48,300,174	4,363,581	3,640,143	54,352,933	51,940,317	4.64%
Long-term liabilities.......................	9,055,542	8,939,185	4,164,764	3,705,077	13,220,306	12,644,262	4.56%
Other liabilities..............................	5,255,195	5,084,644	467,101	404,651	5,722,296	5,489,295	4.24%
Total liabilities...........................	14,310,737	14,023,829	4,631,865	4,109,728	18,942,602	18,133,557	4.46%
Net assets:							
Invested in capital assets,							
net of related debt....................	38,699,112	37,338,472	391,878	294,172	39,090,990	37,632,644	3.88%
Restricted.....................................	728,971	730,021	1,468	3,131	730,439	733,152	(0.37%)
Unrestricted..................................	(3,749,468)	(3,792,148)	(661,630)	(766,888)	(4,411,098)	(4,559,036)	(3.24%)
Total net assets........................	$ 35,678,615	$ 34,276,345	$ (268,284)	$ (469,585)	$ 35,410,331	$ 33,806,760	4.74%

The largest component of the State's net assets ($39.091 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 ($730.439 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 $3.749 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 $7.711 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2012, $5.25 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, 2012, the State's governmental activities have significant unfunded liabilities for compensated absences of $409.381 million, worker's compensation of $136.732 million, and a court judgment payable of $731.703 million (see Note 8 to the financial statements). In 2008, a Superior Court judge ruled that certain civil fines and penalties should have been remitted to North Carolina public schools and not diverted to other uses. These unfunded liabilities also contribute to the negative unrestricted net 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, 2012 and 2011
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2012	2011 (as restated)	2012	2011 (as restated)	2012	2011 (as restated)	2012-2011
Revenues:							
Program revenues:							
Charges for services	$ 2,098,728	$ 2,076,094	$ 3,212,802	$ 2,900,871	$ 5,311,530	$ 4,976,965	6.72%
Operating grants and contributions	15,599,541	15,632,256	1,966,030	2,998,116	17,565,571	18,630,372	(5.72%)
Capital grants and contributions	977,961	1,198,549	15,436	11,687	993,397	1,210,236	(17.92%)
General revenues:							
Taxes							
Individual income tax	10,459,307	10,020,535	—	—	10,459,307	10,020,535	4.38%
Corporate income tax	1,233,989	1,132,931	—	—	1,233,989	1,132,931	8.92%
Sales and use tax	5,530,046	6,172,377	—	—	5,530,046	6,172,377	(10.41%)
Gasoline tax	1,892,163	1,675,476	—	—	1,892,163	1,675,476	12.93%
Franchise tax	804,973	794,091	—	—	804,973	794,091	1.37%
Highway use tax	506,211	469,811	—	—	506,211	469,811	7.75%
Insurance tax	479,755	501,032	—	—	479,755	501,032	(4.25%)
Beverage tax	322,190	311,809	—	—	322,190	311,809	3.33%
Inheritance tax	57,839	24,184	—	—	57,839	24,184	139.16%
Tobacco products tax	293,597	291,699	—	—	293,597	291,699	0.65%
Other taxes	294,516	301,217	—	—	294,516	301,217	(2.22%)
Tobacco settlement	146,135	131,318	—	—	146,135	131,318	11.28%
Unrestricted investment earnings	(56,055)	32,980	—	—	(56,055)	32,980	(269.97%)
Miscellaneous	41,699	45,014	—	3	41,699	45,017	(7.37%)
Total revenues	40,682,595	40,811,373	5,194,268	5,910,677	45,876,863	46,722,050	(1.81%)
Expenses:							
General government	937,353	1,209,923	—	—	937,353	1,209,923	(22.53%)
Primary and secondary education	9,760,909	10,024,775	—	—	9,760,909	10,024,775	(2.63%)
Higher education	4,238,695	4,350,475	—	—	4,238,695	4,350,475	(2.57%)
Health and human services	17,759,093	16,859,438	—	—	17,759,093	16,859,438	5.34%
Economic development	667,106	744,703	—	—	667,106	744,703	(10.42%)
Environment and natural resources	470,965	596,227	—	—	470,965	596,227	(21.01%)
Public safety, corrections and regulation	2,976,448	2,729,418	—	—	2,976,448	2,729,418	9.05%
Transportation	2,403,266	2,177,062	—	—	2,403,266	2,177,062	10.39%
Agriculture	188,985	114,275	—	—	188,985	114,275	65.38%
Interest on long-term debt	282,542	306,696	—	—	282,542	306,696	(7.88%)
Unemployment compensation	—	—	3,283,900	4,420,762	3,283,900	4,420,762	(25.72%)
N.C. State Lottery	—	—	1,141,941	1,028,536	1,141,941	1,028,536	11.03%
EPA Revolving Loan	—	—	14,026	42,897	14,026	42,897	(67.30%)
N.C. Turnpike Authority	—	—	17,565	4,940	17,565	4,940	255.57%
Regulatory programs	—	—	69,980	80,454	69,980	80,454	(13.02%)
Insurance programs	—	—	38,701	36,885	38,701	36,885	4.92%
North Carolina State Fair	—	—	13,030	13,595	13,030	13,595	(4.16%)
Other business-type activities	—	—	12,084	9,148	12,084	9,148	32.09%
Total expenses	39,685,362	39,112,992	4,591,227	5,637,217	44,276,589	44,750,209	(1.06%)
Increase (decrease) in net assets before contributions and transfers	997,233	1,698,381	603,041	273,460	1,600,274	1,971,841	(18.84%)
Contributions to permanent funds	3,297	3,188	—	—	3,297	3,188	3.42%
Transfers	401,740	371,424	(401,740)	(371,424)	—	—	0.00%
Increase (decrease) in net assets	1,402,270	2,072,993	201,301	(97,964)	1,603,571	1,975,029	(18.81%)
Net assets - beginning - restated	34,276,345	32,203,352	(469,585)	(371,621)	33,806,760	31,831,731	6.20%
Net assets - ending	$ 35,678,615	$ 34,276,345	$ (268,284)	$ (469,585)	$ 35,410,331	$ 33,806,760	4.74%

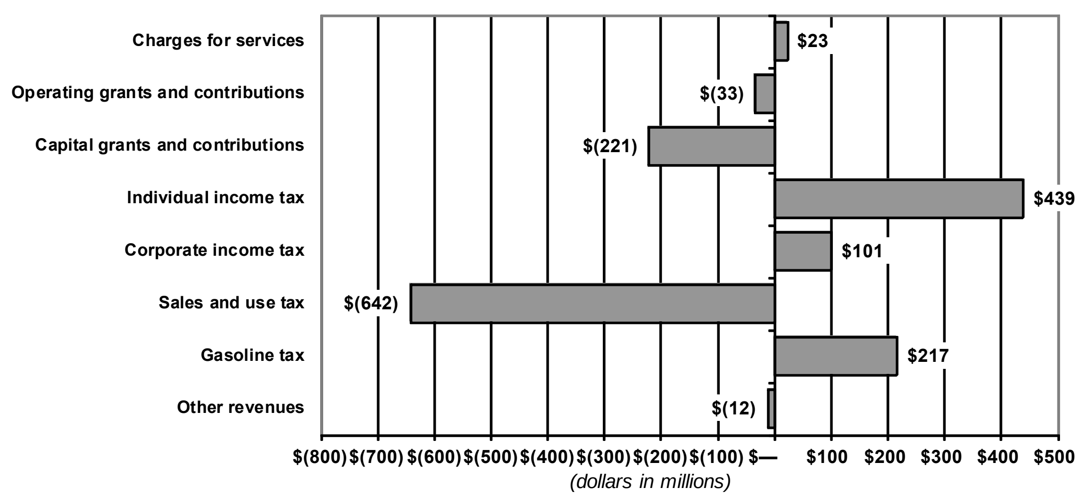
Governmental Activities

For fiscal year 2012, revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase in net assets of $1.402 billion (or 4.09%) resulted for governmental activities. While total revenues decreased by less than one percent ($128.78 million), total expenses increased by 1.46% ($572.37 million). The decrease in total revenues is attributable mainly to the expiration of temporary tax increases enacted by the N.C. General Assembly and significant reductions in federal recovery funds (see below paragraph). The decrease in total revenues was partially offset by increases in individual income taxes, gasoline taxes, and other taxes. The increase in individual income taxes is an indication that the State's economy is slowly turning in a positive direction. The increase in gasoline taxes is due to a higher average tax rate as a result of higher wholesale prices during the fiscal year.

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 provided supplemental funding to states for budget stabilization, entitlement programs (Medicaid and extension of unemployment benefits), and other purposes. The ARRA specifies that most of the 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. The ARRA also provides funding for the Race to the Top Fund, a competitive grant program designed to encourage and reward states that create conditions for education innovation and reform. North Carolina secured $400 million in federal Race to the Top grants in 2010 to be spent over four years through the 2014 school year. North Carolina also won $70 million in early childhood grants in 2011. During the current and previous fiscal years, the State's governmental activities recognized $658.57 million and $2.27 billion of ARRA funds, respectively (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 2011 and 2012:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2011 and 2012



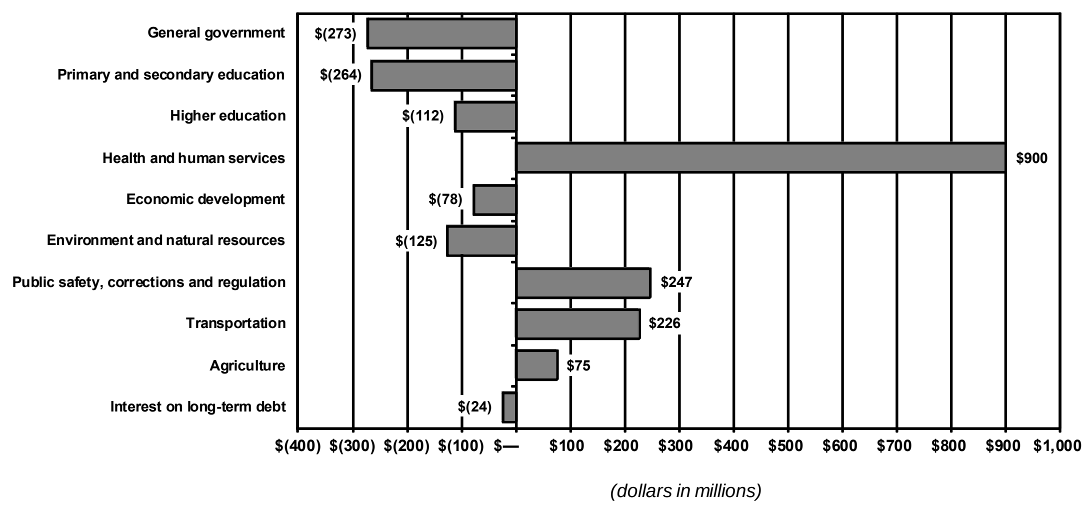
For fiscal year 2012, spending increases in the functional areas of health and human services; public safety, corrections, and regulation; transportation; and agriculture were partially offset by spending decreases in the State's other functional areas. The growth in health and human services is primarily due to increased spending for Medicaid (the State's largest public assistance program). However, total operating grants and contributions decreased because the primary ARRA funding streams ended in fiscal year 2011.

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 public safety, corrections, and regulation is due to the consolidation of the Department of Juvenile Justice and Delinquency Prevention (Juvenile Justice) into the new State Department of Public Safety. In the prior fiscal year, expenses of Juvenile Justice were classified as health and human services. Construction activity on various intrastate and secondary routes accounted for the majority of the spending increase in transportation. The spending decreases in the remaining functional areas are explained by the significant reductions in ARRA funding mentioned previously and by the significant spending reductions enacted by the N.C. General Assembly in the fiscal year 2012 budget.

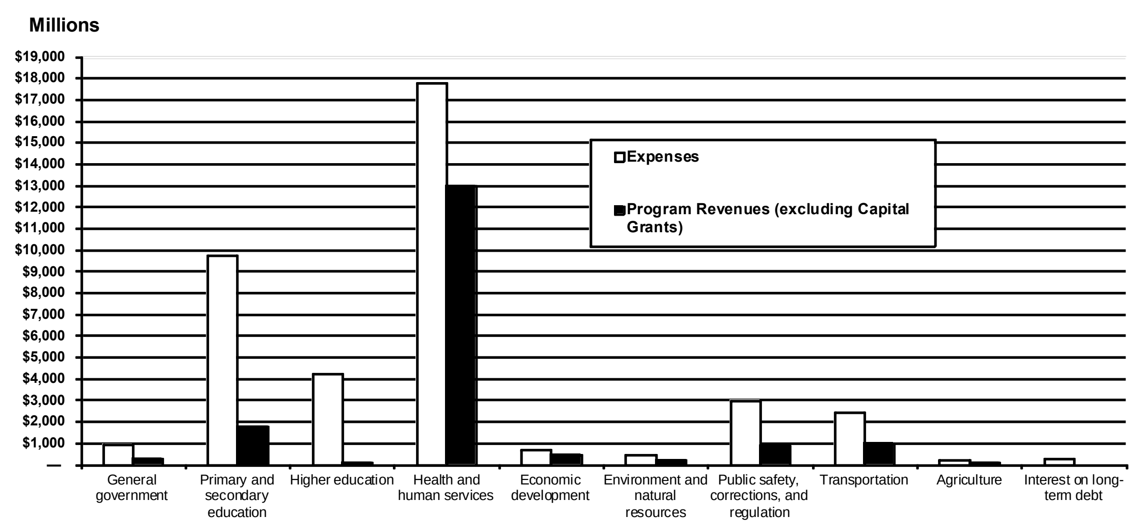
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2011 and 2012:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2011 and 2012



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

Expenses - Governmental Activities For the Fiscal Year Ended June 30, 2012



Business-type Activities

Business-type activities reflect an overall increase in net assets of $201.301 million or 42.87%, primarily because of the financial results of the Unemployment Compensation Fund, the N.C. Turnpike Authority, and the EPA Revolving Loan Fund, respectively. The net asset increase of $59.41 million in the Unemployment Compensation Fund is explained by the drop in the State's unemployment rate. The net asset increase of $80.017 million for the N.C. Turnpike Authority is due to capital contributions from the Federal Highway Administration and transfers in from the Highway Trust Fund. The net asset increase of $67.107 million in the EPA Revolving Loan Fund is due to the recognition of federal capitalization grants and federal recovery funds. 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. At June 30, 2012, the State's governmental funds reported combined fund balances of $3.499 billion, a decrease of 3.34% from the prior fiscal year-end (as restated). This amount includes negative unassigned fund balances of $63.614 million. The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending. The negative unassigned fund balances are due to nonspendable, restricted, and committed fund balances exceeding total fund balances. 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 declined 13.58% to $1.022 billion at June 30, 2012. The decrease is due to the expiration of temporary taxes and significant growth in Medicaid expenditures. At the end of the current fiscal year, unassigned fund balance of the General Fund was negative $62.303 million.

Individual income tax and corporate income tax revenues increased by 4.38% and 4.85% respectively, while sales and use tax revenues decreased by 10.07%. All individual income tax payment types (i.e., final payments by individuals, withholdings by employers, and estimated payments by individuals) increased during the current fiscal year. This trend shows that the economy is slowly turning in a positive direction. 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% increase in the state sales tax (expired on July 1, 2011), a 2% or 3% income tax surcharge on highest-income households (expired for taxable years on or after January 1, 2011), and a 3% 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.

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 General Assembly enacted a $19.7 billion appropriation 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 to availability 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).

During the current and previous fiscal years, the General Fund recognized federal recovery funds provided under the American Recovery and Reinvestment Act of 2009 (ARRA) of $421.815 million and $1.791 billion, respectively. 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. The ARRA funding streams for the SFSF and FMAP ended in fiscal year 2010-11.

One of the major budget drivers for the General Fund is the Medicaid Program. On the budget basis, expenditures for Medicaid increased 22.76% in fiscal year 2011-12 to $3.03 billion. The significant increase is due to the reduced federal participation in Medicaid (see previous page) and a Medicaid budget shortfall. The fiscal year 2011-12 certified budget fell short by $375 million of the amount needed to provide Medicaid services for the entire fiscal year. This increase is explained by unbudgeted liabilities (i.e., over-collection of federal funding in fiscal year 2008-09), unachievable budget reductions, and an increase in Medicaid enrollment. The Medicaid Program was directed by Session Law 2011-145 to achieve savings through various optional service changes. However, due to the length of time necessary for application to and approval by the Centers for Medicare and Medicaid Services (CMS), budget reductions were not achieved. In addition, Medicaid enrollment increased by 4.6% during the current fiscal year. The percentage of Medicaid participants grew from 15.2% of the North Carolina population in the prior fiscal year to an estimated 15.8% of the State's population in the current fiscal year. To assist with the Medicaid shortfall, the N.C. General Assembly enacted legislation that transferred funds to the Medicaid Program from sources such as the Repairs and Renovations Reserve and agency reversions.

During the current fiscal year, specific actions to mitigate the growing population and expenditures in Medicaid included 1) a two percent annual rate reduction, 2) changes in payment policies to offset cost and inflationary increases in rate methodologies, 3) implementation of new provider assessment programs, 4) application for a new CMS initiative to enhance Federal Medical Assistance Percentage, 5) modification of pharmacy policies and payments to reduce costs and increase generic prescribing, 6) modification of clinical coverage policies for selected services, and 7) other program changes. All policies and changes were implemented in a manner to ensure continued access to quality services for the Medicaid enrollees.

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 2011-12 was prepared approximately 18 months prior to the final budget existing at June 30, 2012. 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 2011 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 2011-12 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 2010-11 totaled $127.1 million.
3) Allocation of statewide reserves to agencies and universities for the purposes of retirement and hospitalization formula adjustments, contingency and emergency, information technology related programs, and various other budgeted statewide reserves.
4) Receipt and budgeting of over-realized receipts, prior year earned revenues, and unanticipated donations and grants.
5) Budgeting of federal ARRA funds that increased the final revenue and expenditure budgets.

Variances - Final Budget and Actual Results

Actual total revenue collected (both tax and non-tax, excluding departmental) exceeded budgeted amounts in fiscal year 2011-12. This primarily occurred because North Carolina adopted a cautious revenue outlook for fiscal year 2011-12 and the economy performed slightly better than anticipated. In particular, income, gains, and profits exceeded expectations and translated into better than expected individual income tax and corporate income tax collections, two of North Carolina's largest and most volatile revenue sources. Sales and use tax collections, however, finished the fiscal year slightly below forecast as the labor market struggled to gain consistent momentum.

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

Highway Fund

The Highway Fund dates back to 1921, 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 increased from $572.667 million at June 30, 2011 (as restated) to $629.073 million at June 30, 2012, an increase of 9.85%. The fund balance increase is attributable, in part, to the issuance of $179.54 million in grant anticipation revenue vehicle bonds (GARVEE's) in January 2012. This innovative financing tool was used to accelerate the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2012, $88.41 million of the GARVEE proceeds were unspent.

Total revenues decreased by $24.73 million or less than one percent. Gasoline taxes increased by 12.88%; however, this increase was more than offset by decreases in federal recovery funds. While overall fuel consumption decreased slightly during the year, gasoline taxes increased due to a 4.75 cent increase in the average tax rate as a result of higher wholesale prices during the fiscal year. By the end of fiscal year 2011, over 80% of federal recovery funds for highway infrastructure had been exhausted. As a result, billings for 2012 were less than the previous year. Total expenditures increased by less than one percent.

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 2012, an increase of 21.49%. 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. Session Law 2012-142 reinstated the cap on the motor fuels tax at a rate of 37.5 cents per gallon effective July 1, 2012 until June 30, 2013.

Highway Trust Fund

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

The principal revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees. The enabling legislation also specifies that a designated amount will be transferred each year to the General Fund. The amounts transferred to the General Fund for fiscal years 2012 and 2011 were $76.721 million and $72.895 million, respectively. The enabling legislation was amended in 2008 to also require annual transfers to the N.C. Turnpike Authority to pay debt service or financing expenses for specified toll road construction projects (see Note 10(B) to the financial statements).

The fund balance of the Highway Trust Fund increased from $262.161 million at June 30, 2011 (as restated) to $381.729 million at June 30, 2012, an increase of 45.61%. Total revenues increased by $91.72 million or 9.39%, primarily because of increases in gasoline taxes and highway use taxes. While overall fuel consumption decreased slightly during the year, gasoline taxes increased due to a 4.75 cent increase in the average tax rate as a result of higher wholesale prices during the fiscal year. Highway use taxes increased primarily due to growth in new vehicle sales. Total transportation expenditures increased by $94.12 million or 15.82%. Construction activity on various intrastate and secondary routes along with the Yadkin River bridge project 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 Unemployment Compensation Fund (Trust Fund) reported net assets of negative $1.969 billion at June 30, 2011 compared to negative $1.909 billion at June 30, 2012. The improvement in net assets is explained primarily by the drop in the State's unemployment rate from 10.6% in June 2011 to 9.4% in June 2012. The Trust Fund's operating margin (operating revenues less operating expenses) was negative $1.719 billion this year compared to negative $3.074 billion in 2011. Unemployment benefit expenses (both State and Federal) decreased 26.92% in fiscal year 2011-12 to $3.192 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, 2012, the repayable advances from the State's Federal Unemployment Account totaled $2.566 billion compared to $2.536 billion at the previous fiscal year-end. Interest began accruing January 1, 2012 at an interest rate of 2.94%. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. The required interest payment of $84 million was made on September 30, 2012. 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 2011-12, the federal government continued to provide various types of assistance to the unemployed but the total assistance decreased significantly. Consequently, nonoperating revenues decreased 34.22% to $1.888 billion. The multiple types of assistance, classified as nonoperating revenues, are as follows:

1. The federal Emergency Unemployment Compensation program provided $1.536 billion in benefits this fiscal year (compared to $2.271 billion last year).
2. The Extended Benefit (EB) and High Unemployment Period 100% programs provided payments that totaled $283.718 million this fiscal year (compared to $458 million last year). These benefits were provided under the American Recovery and Reinvestment Act.

For the tax year 2012, the Federal Unemployment Tax increased by 0.3% because the State had an outstanding loan in January for two consecutive years and did not pay back the borrowing. The funds generated from this federal tax increase go directly towards paying down the loan (i.e., Federal unemployment account advances). The additional federal taxes paid by the State's employers this fiscal year, which were used to reduce the loan, was $68.329 million (classified as gain on extinguishment of debt). The Federal Unemployment Tax will increase by 0.3% for each succeeding year until the loan is repaid.

N.C. State Lottery Fund

The N.C. Education Lottery (NCEL) first began selling game tickets in 2006. As required by the enabling legislation, net revenues of the NCEL are transferred four times a year to the General Fund. The NCEL transferred $459.469 million to the General Fund in 2012 to support educational programs for the State. The amount transferred in 2011 was $436.241 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 2011-12, net ticket sales increased 9.38% from the previous fiscal year to $1.596 billion. Significant financial highlights include the following: awarded $1 million or more to an NCEL player for the 110th time; increased the number of retailers to 6,787, representing a 2.7% increase over the prior year; and released 49 new instant scratch-off games into the marketplace generating gross instant ticket sales of $960 million.

The NCEL's 2012-13 budget provides for a projected $442 million transfer to the General Fund, representing a 3.9% increase from the previous year's budget. As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 67% to support reduction of class size in early grades and to support pre-kindergarten programs for at-risk four-year-olds who would otherwise not be served in high quality settings *(Note: to date, these programs have been funded by the General Fund).*
2. 23% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

N.C. Turnpike Authority

The North Carolina Turnpike Authority (NCTA) was created in 2002 by the General Assembly in response to concerns about rapid growth, heavy congestion and dwindling resources. It is authorized to study, plan, develop, construct, operate and maintain up to eight turnpike projects. Major accomplishments for the NCTA for fiscal year 2011-12 included the following:

- The Triangle Expressway System, North Carolina's first modern toll road, is under construction and being completed in three stages. The Triangle Parkway (Phase I) is 3.4 miles of new construction and was completed ahead of schedule and opened to traffic in December 2011. The Western Wake Freeway (Phases II and III) includes 12.6 miles of new construction. Phase II opened in August 2012 and Phase III is expected to open in December 2012. The Triangle Expressway System includes the construction of an integrated, electronic tolling system. As of June 30, 2012, the project is approximately 80% complete, with a 5.9% estimated savings from the initial financial plan.
- The NCTA has completed the financing for the Monroe Connector System, a 20 mile toll road in Mecklenburg and Union counties. However, construction has been delayed due to litigation challenging the project's environmental documentation.

Funding for administrative expenses is being advanced as needed from the Highway Trust Fund to be repaid from NCTA revenue collections. Interest on the advances will begin to accrue one year after the NCTA begins collecting tolls on a completed turnpike project.

The high cost of building, operating and maintaining a major highway facility is typically more than the revenue a new road can generate through tolls. The gap between what tolling can pay for and the cost of the road requires additional support from the State, known as gap funding. In 2008, the General Assembly enacted legislation authorizing annual transfers from the Highway Trust Fund to the NCTA to pay debt service and fund required reserves on bonds issued to finance turnpike projects. For fiscal years 2012 and 2013, the N.C. General Assembly appropriated $49 million annually for the Triangle Expressway and Monroe Connector projects.

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by $67.107 million or 5.73% from the prior fiscal year-end. Operating income was $15.674 million (operating revenues less operating expenses). Net nonoperating revenues were $44.837 million and consisted primarily of federal capitalization grants and 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, 2012, the State's investment in capital assets was $42.092 billion, an increase of 4.9% from the previous fiscal year-end (see table below).

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011 (as restated)	2012	2011 (as restated)	2012	2011 (as restated)
Land and permanent easements.........	$ 15,038,175	$ 14,397,753	$ 143,664	$ 118,255	$ 15,181,839	$ 14,516,008
Buildings..	2,664,959	2,283,382	28,611	29,575	2,693,570	2,312,957
Machinery and equipment..................	569,660	576,835	6,237	6,335	575,897	583,170
Infrastructure:						
State highway system..................	20,330,946	19,532,260	183,936	—	20,514,882	19,532,260
Other infrastructure.......................	158,358	132,507	4,907	5,409	163,265	137,916
Computer software............................	28,751	16,701	45	45	28,796	16,746
Art, literature, and other artifacts........	87,429	87,402	—	—	87,429	87,402
Construction in progress....................	1,865,688	2,232,547	694,181	578,899	2,559,869	2,811,446
Computer software in development....	286,496	128,905	—	—	286,496	128,905
Total..	$ 41,030,462	$ 39,388,292	$ 1,061,581	$ 738,518	$ 42,092,043	$ 40,126,810
Total percent change between fiscal years 2012 and 2011	**4.17 %**		**43.74 %**		**4.9 %**	

The largest component of capital assets is the State highway system. North Carolina has a 79,415 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 $1.9 billion (including land improvements) for State highway projects. Additionally, the N.C. Turnpike Authority (Authority), a separate business unit of DOT, had construction outlays of $325.5 million for toll road projects. The Authority's largest project is the Triangle Expressway, the State's first modern toll road.
- The Department of Public Safety completed and placed into service a new regional 120 bed medical center (construction cost of $61.8 million) and 220 bed mental health center (construction cost of $55.3 million) at Central Prison in Raleigh.
- The Department of Environment and Natural Resources (DENR) completed and placed into service the Green Square Complex (construction cost of $85.5 million), which consists of office space for DENR employees, the Nature Research Center, and an underground parking deck. This project utilized principles of green building and sustainable design.
- The Department of Health and Human Services (DHHS) is constructing a new psychiatric hospital to replace the existing Cherry Hospital (construction in progress at year-end of $76.5 million). The new Cherry Hospital is the second of three state-of-the-art facilities that the State has built or will build to replace its aging state-operated psychiatric hospitals. Central Regional Hospital opened in 2008. Construction on a new Broughton Hospital began in 2012. Additionally, DHHS is constructing a new facility that will house the State Laboratory of Public Health and Chief Medical Examiner (construction in progress at year-end of $66.9 million). The new DHHS construction projects are being financed by special indebtedness bonds approved by the N.C. General Assembly.

As further detailed in Note 22(F) to the financial statements, the State has commitments of $2.62 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 $603.72 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 $8.916 billion, an increase of 5.38% 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 4,470,500	$ 4,846,205	$ —	$ —	$ 4,470,500	$ 4,846,205
Special Indebtedness:						
Lease-purchase revenue bonds	30,915	205,045	—	—	30,915	205,045
Certificates of participation	557,895	824,860	—	—	557,895	824,860
Limited obligation bonds	1,795,090	1,060,745	—	—	1,795,090	1,060,745
GARVEE bonds	512,085	373,080	145,535	—	657,620	373,080
Revenue bonds	—	—	1,081,183	856,678	1,081,183	856,678
Notes payable	35,691	25,038	286,818	269,030	322,509	294,068
Total	$ 7,402,176	$ 7,334,973	$ 1,513,536	$ 1,125,708	$ 8,915,712	$ 8,460,681
Total percent change between fiscal years 2012 and 2011	**0.92 %**		**34.45 %**		**5.38 %**	

During the 2011-12 fiscal year, the State issued $400 million in limited obligation bonds and $179.54 million in GARVEE bonds for its governmental activities. The proceeds of the limited obligation bonds will be used to finance various State and university capital improvement projects, which were authorized for special indebtedness financing by previous sessions of the General Assembly. The proceeds of the GARVEE bonds will be used to accelerate funding of various transportation projects identified in the current State Transportation Improvement Plan. Additionally, the N.C. Turnpike Authority (Authority), a business-type activity, issued $214.51 million in State appropriation revenue bonds and $145.54 million in GARVEE bonds. The revenue and GARVEE bond proceeds will be used to finance the construction of the Monroe Connector System.

The State refinanced $382.5 million of its existing debt in fiscal year 2012 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 $27.3 million over the next 13 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 $8.916 billion in 2012, in part due to large issuances for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The following is a summary of recent debt authorizations.

Special Indebtedness

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

Repair and Renovation Authorization

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

Higher Education Authorization

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

Clean Water and Natural Gas Authorization

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

Highway Bond Authorization

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

Credit Ratings

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

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 November 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 historically conservative budgeting, financial management, and debt issuance practices. 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 2012 Session of the General Assembly enacted a $20.2 billion budget for fiscal year 2012-13, a 1.2% increase over the budget originally enacted. Budget adjustments made in the 2012 legislative session focused primarily on Medicaid and public schools. Medicaid received a net increase of $194 million and, for the first time since 2008, state employees (including state-funded public school teachers) received compensation increases. In an effort to reduce budget cuts scheduled for Local Education Agencies (LEA), the public schools budget was increased by $143.3 million, reducing the amount of the LEA reduction scheduled for fiscal year 2012-13. There were no major changes in tax rates or fees for fiscal year 2012-13.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2012 *Exhibit A-1*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Assets				
Cash and cash equivalents (Note 3)	$ 3,727,922	$ 623,764	$ 4,351,686	$ 2,878,025
Investments (Note 3)	260,264	160,400	420,664	2,505,868
Securities lending collateral (Note 3)	556,715	115,115	671,830	—
Receivables, net (Note 4)	3,084,001	645,328	3,729,329	1,139,652
Due from component units (Note 19)	5,371	—	5,371	8,902
Due from primary government (Note 19)	—	—	—	204,538
Internal balances	28,047	(28,047)	—	—
Inventories	206,890	1,973	208,863	105,713
Prepaid items	809	4,101	4,910	58,457
Advances to component units	24,671	—	24,671	—
Notes receivable, net (Note 4)	104,169	875,001	979,170	4,442,644
Investment in joint venture	—	—	—	17,554
Deferred charges	—	30,394	30,394	44,762
Securities held in trust	50,545	—	50,545	—
Pension assets (Note 12)	3,732	—	3,732	—
Restricted/designated cash and cash equivalents (Note 3)	343,750	663	344,413	2,133,785
Restricted investments (Note 3)	562,004	873,308	1,435,312	4,586,623
Restricted due from primary government (Note 19)	—	—	—	37,957
Restricted due from component units (Note 19)	—	—	—	1,373
Deferred outflow of resources	—	—	—	177,291
Capital assets-nondepreciable (Note 5)	17,277,788	837,845	18,115,633	2,028,058
Capital assets-depreciable, net (Note 5)	23,752,674	223,736	23,976,410	12,344,353
Total Assets	49,989,352	4,363,581	54,352,933	32,715,555
Liabilities				
Accounts payable and accrued liabilities	1,727,588	164,865	1,892,453	925,240
Medical claims payable	778,120	—	778,120	244,060
Unemployment benefits payable	—	55,066	55,066	—
Tax refunds payable	1,364,777	—	1,364,777	—
Obligations under securities lending	579,162	121,291	700,453	—
Interest payable	77,813	96,224	174,037	70,316
Short-term debt (Note 6)	—	—	—	182,650
Due to component units (Note 19)	242,495	—	242,495	10,275
Due to primary government (Note 19)	—	—	—	5,371
Unearned revenue	396,396	29,108	425,504	364,091
Advance from primary government	—	—	—	24,671
Deposits payable	3,472	547	4,019	16,594
Funds held for others	85,372	—	85,372	1,764,968
Hedging derivatives liability (Note 7)	—	—	—	177,291
Long-term liabilities (Note 8):				
Due within one year	598,901	1,284,176	1,883,077	622,229
Due in more than one year	8,456,641	2,880,588	11,337,229	8,141,172
Total Liabilities	14,310,737	4,631,865	18,942,602	12,548,928
Net Assets				
Invested in capital assets, net of related debt	38,699,112	391,878	39,090,990	10,372,677
Restricted for:				
Nonexpendable:				
Environment and natural resources	93,250	—	93,250	—
Higher education	581	—	581	1,960,836
Expendable:				
Primary and secondary education	2,957	—	2,957	—
Higher education	352,246	—	352,246	2,798,642
Health and human services	25,503	—	25,503	37
Economic development	45,106	—	45,106	755,976
Environment and natural resources	42,007	—	42,007	—
Public safety, corrections, and regulation	49,181	—	49,181	—
Transportation	2,939	—	2,939	—
Other purposes	115,201	1,468	116,669	—
Unrestricted	(3,749,468)	(661,630)	(4,411,098)	4,278,459
Total Net Assets	$ 35,678,615	$ (268,284)	$ 35,410,331	$ 20,166,627

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, 2012

(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	$ 937,353	$ 218,011	$ 26,445	$ 12,415	$ (680,482)
Primary and secondary education	9,760,909	26,249	1,762,208	—	(7,972,452)
Higher education	4,238,695	68,846	36,614	—	(4,133,235)
Health and human services	17,759,093	308,986	12,688,879	—	(4,761,228)
Economic development	667,106	31,085	420,749	77	(215,195)
Environment and natural resources	470,965	134,502	73,937	12,661	(249,865)
Public safety, corrections, and regulation	2,976,448	594,377	253,807	4,365	(2,123,899)
Transportation	2,403,266	685,596	306,613	946,982	(464,075)
Agriculture	188,985	31,076	30,289	1,461	(126,159)
Interest on long-term debt	282,542	—	—	—	(282,542)
Total Governmental Activities	39,685,362	2,098,728	15,599,541	977,961	(21,009,132)
Business-type Activities:					
Unemployment Compensation	3,283,900	1,473,576	1,888,350	—	78,026
N.C. State Lottery	1,141,941	1,601,837	573	—	460,469
EPA Revolving Loan	14,026	23,366	51,171	—	60,511
N.C. Turnpike Authority	17,565	664	14,460	15,272	12,831
Regulatory programs	69,980	70,764	924	—	1,708
Insurance programs	38,701	17,547	9,750	—	(11,404)
North Carolina State Fair	13,030	14,470	585	—	2,025
Other business-type activities	12,084	10,578	217	164	(1,125)
Total Business-type Activities	4,591,227	3,212,802	1,966,030	15,436	603,041
Total Primary Government	$ 44,276,589	$ 5,311,530	$ 17,565,571	$ 993,397	$ (20,406,091)
Component Units:					
The Golden LEAF, Inc.	$ 35,261	$ 7	$ (9,645)	$ —	$ (44,899)
University of North Carolina System	9,341,127	5,995,746	1,067,649	351,800	(1,925,932)
Community Colleges	2,155,178	316,624	873,477	247,830	(717,247)
N.C. Housing Finance Agency	377,421	333,472	46,106	—	2,157
State Education Assistance Authority	263,419	75,823	192,599	—	5,003
State Health Plan	2,667,014	2,740,829	102,170	—	175,985
Other component units	338,851	124,159	134,088	7,777	(72,827)
Total Component Units	$ 15,178,271	$ 9,586,660	$ 2,406,444	$ 607,407	$ (2,577,760)

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2012 *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Changes in Net Assets:				
Net (expense) revenue	$ (21,009,132)	$ 603,041	$ (20,406,091)	$ (2,577,760)
General Revenues:				
Taxes:				
Individual income tax	10,459,307	—	10,459,307	—
Corporate income tax	1,233,989	—	1,233,989	—
Sales and use tax	5,530,046	—	5,530,046	—
Gasoline tax	1,892,163	—	1,892,163	—
Franchise tax	804,973	—	804,973	—
Highway use tax	506,211	—	506,211	—
Insurance tax	479,755	—	479,755	—
Beverage tax	322,190	—	322,190	—
Inheritance tax	57,839	—	57,839	—
Tobacco products tax	293,597	—	293,597	—
Other taxes	294,516	—	294,516	—
Tobacco settlement	146,135	—	146,135	—
Unrestricted investment earnings	(56,055)	—	(56,055)	—
State aid	—	—	—	3,518,299
Miscellaneous	41,699	—	41,699	16,434
Contributions to permanent funds	3,297	—	3,297	—
Contributions to endowments	—	—	—	86,143
Transfers	401,740	(401,740)	—	—
Total general revenues, contributions, and transfers	22,411,402	(401,740)	22,009,662	3,620,876
Change in net assets	1,402,270	201,301	1,603,571	1,043,116
Net assets — July 1, as restated (Note 24)	34,276,345	(469,585)	33,806,760	19,123,511
Net assets — June 30	$ 35,678,615	$ (268,284)	$ 35,410,331	$ 20,166,627

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012 *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)	$ 1,905,386	$ 671,226	$ 407,788	$ 641,293	$ 3,625,693
Investments (Note 3)	5,329	—	—	202,588	207,917
Securities lending collateral (Note 3)	366,383	70,444	43,906	71,262	551,995
Receivables, net: (Note 4)					
Taxes receivable	1,757,395	138,273	44,728	2,151	1,942,547
Accounts receivable	240,470	20,789	82	16,216	277,557
Intergovernmental receivable	796,334	39,165	143	5,546	841,188
Interest receivable	4,156	396	185	389	5,126
Other receivables	—	2,977	—	—	2,977
Due from other funds (Note 10)	12,660	—	—	6,276	18,936
Due from component units (Note 19)	—	—	—	4,703	4,703
Inventories	80,054	92,611	—	33,792	206,457
Advances to other funds (Note 10)	—	—	22,746	—	22,746
Advances to component units	—	2,929	—	21,742	24,671
Notes receivable, net (Note 4)	62,760	913	66	40,430	104,169
Securities held in trust	430	4,286	—	45,829	50,545
Restricted/designated cash and cash equivalents (Note 3)	156,396	—	—	187,354	343,750
Restricted investments (Note 3)	—	88,411	—	473,593	562,004
Total Assets	$ 5,387,753	$ 1,132,420	$ 519,644	$ 1,753,164	$ 8,792,981
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 194,324	$ 243,776	$ 35,578	$ 34,353	$ 508,031
Accrued payroll	3,533	38,733	—	233	42,499
Intergovernmental payable	742,720	93,512	53,302	4,505	894,039
Claims payable	—	—	—	41,335	41,335
Medical claims payable	778,120	—	—	—	778,120
Tax refunds payable	1,358,707	4,553	1,517	—	1,364,777
Obligations under securities lending	380,999	72,986	46,768	73,480	574,233
Due to fiduciary funds (Note 10)	79,870	—	—	—	79,870
Due to other funds (Note 10)	21,853	4,110	—	2,851	28,814
Due to component units (Note 19)	193,144	1,559	—	47,792	242,495
Deferred revenue	589,359	23,892	750	36,728	650,729
Deposits payable	3,465	—	—	7	3,472
Funds held for others	19,211	20,226	—	45,935	85,372
Total Liabilities	4,365,305	503,347	137,915	287,219	5,293,786
Fund Balances (Note 11):					
Nonspendable	80,054	92,611	—	127,404	300,069
Restricted	115,688	82,212	—	771,141	969,041
Committed	889,009	454,250	381,729	568,215	2,293,203
Assigned	—	—	—	496	496
Unassigned	(62,303)	—	—	(1,311)	(63,614)
Total Fund Balances	1,022,448	629,073	381,729	1,465,945	3,499,195
Total Liabilities and Fund Balances	$ 5,387,753	$ 1,132,420	$ 519,644	$ 1,753,164	$ 8,792,981

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, 2012 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 3,499,195
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)	$ 41,535,743	
Less: Accumulated depreciation (excluding internal service funds)	(590,500)	
Net capital assets		40,945,243
- **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.		263,697
Investment derivatives are not financial resources and, therefore, are not reported in the funds (see Note 7).		23,934
- **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).		3,732
- **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	(4,470,500)	
Lease-purchase revenue bonds payable	(30,915)	
Certificates of participation payable	(557,895)	
Limited obligation bonds payable	(1,795,090)	
GARVEE bonds payable	(512,085)	
Unamortized debt premiums (to be amortized as interest expense)	(485,615)	
Less: Unamortized loss on refunding (to be amortized as interest expense)	141,108	
Notes payable	(35,691)	
Capital leases payable (excluding internal service funds)	(20,025)	
Net long-term debt		(7,766,708)
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Notes 7 or 8 as applicable) consist of:		
Accrued interest payable	(77,813)	
Compensated absences (excluding internal service funds)	(403,432)	
Obligations for workers' compensation	(136,732)	
Deferred death benefit payable	(510)	
Pollution remediation payable	(6,485)	
Court judgment payable	(731,703)	
Negative investment derivatives	(149,050)	
Net pension obligation	(2,766)	
Total other liabilities		(1,508,491)
- **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).		218,013
Total net assets - governmental activities (see Exhibit A-1)		$ 35,678,615

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, 2012 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax	$ 10,457,217	$ —	$ —	$ 2,090	$ 10,459,307
Corporate income tax	1,194,865	—	—	—	1,194,865
Sales and use tax	5,516,304	—	—	8,549	5,524,853
Gasoline tax	—	1,393,562	464,855	27,667	1,886,084
Franchise tax	797,596	—	—	—	797,596
Highway use tax	—	—	506,211	—	506,211
Insurance tax	463,574	—	—	16,181	479,755
Beverage tax	322,194	—	—	—	322,194
Inheritance tax	58,238	—	—	—	58,238
Tobacco products tax	293,286	—	—	—	293,286
Other taxes	152,525	—	—	142,031	294,556
Federal funds	14,433,383	1,088,392	—	104,921	15,626,696
Local funds	164,679	16,857	1,013	5,856	188,405
Investment earnings	15,957	5,388	539	28,728	50,612
Interest earnings on loans	2,445	36	—	866	3,347
Sales and services	137,619	2,417	—	152,669	292,705
Rental and lease of property	10,433	10,668	2,461	3,012	26,574
Fees, licenses, and fines	690,553	570,902	92,350	194,168	1,547,973
Tobacco settlement	140,979	—	—	—	140,979
Contributions, gifts, and grants	20,452	5,326	306	39,863	65,947
Funds escheated	—	—	—	68,207	68,207
Federal recovery funds	421,815	135,769	—	100,986	658,570
Miscellaneous	119,355	10,399	1,091	15,098	145,943
Total revenues	35,413,469	3,239,716	1,068,826	910,892	40,632,903
Expenditures:					
Current:					
General government	854,904	—	—	46,750	901,654
Primary and secondary education	9,738,102	—	—	—	9,738,102
Higher education	3,731,250	—	—	506,399	4,237,649
Health and human services	17,772,020	—	—	82,973	17,854,993
Economic development	559,645	—	—	107,412	667,057
Environment and natural resources	221,495	—	—	208,387	429,882
Public safety, corrections, and regulation	2,697,700	—	—	240,042	2,937,742
Transportation	—	3,112,123	689,067	6	3,801,196
Agriculture	166,998	—	—	14,389	181,387
Capital outlay	—	—	—	231,688	231,688
Debt service:					
Principal retirement	412,144	40,535	56,569	4,947	514,195
Interest and fees	303,937	19,082	22,789	732	346,540
Debt issuance costs	2,130	367	57	4,520	7,074
Total expenditures	36,460,325	3,172,107	768,482	1,448,245	41,849,159
Excess revenues over (under) expenditures	(1,046,856)	67,609	300,344	(537,353)	(1,216,256)
Other Financing Sources (Uses):					
Special indebtedness issued	—	—	—	400,000	400,000
GARVEE bonds issued	—	179,540	—	—	179,540
Refunding bonds issued	367,350	—	—	—	367,350
Other debt issued	15,825	—	—	—	15,825
Premium on debt issued	63,719	25,374	—	42,799	131,892
Payment to refunded bond escrow agent	(428,830)	—	—	—	(428,830)
Sale of capital assets	5,170	5,910	1,536	273	12,889
Insurance recoveries	10,308	5,952	—	184	16,444
Transfers in (Note 10)	962,639	42,880	—	109,898	1,115,417
Transfers out (Note 10)	(109,982)	(270,859)	(182,312)	(151,849)	(715,002)
Total other financing sources (uses)	886,199	(11,203)	(180,776)	401,305	1,095,525
Net change in fund balances	(160,657)	56,406	119,568	(136,048)	(120,731)
Fund balances — July 1, as restated (Note 24)	1,183,105	572,667	262,161	1,601,993	3,619,926
Fund balances — June 30	$ 1,022,448	$ 629,073	$ 381,729	$ 1,465,945	$ 3,499,195

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, 2012 *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ (120,731)
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)	$ 2,434,793	
Less: Depreciation expense (excluding internal service funds)	(722,807)	
Net capital outlay adjustment		1,711,986
- **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.		(52,162)
- **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.		1,521
- **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	(595,365)	
Refunding bonds issued	(367,350)	
Premiums on debt issued	(131,892)	
Principal repayments:		
Bonds, notes, and similar debt	512,943	
Capital leases (excluding internal service funds)	1,252	
Payments to escrow agent for refundings	428,830	
Net debt adjustments		(151,582)
- **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.		49,799
Changes in fair value of investment derivatives are not current financial resources in governmental funds but are recognized in the Statement of Activities		(72,915)
- **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	8,501	
Compensated absences (excluding internal service funds)	2,882	
Workers' compensation	(24,045)	
Deferred death benefit	(140)	
Net pension obligation	921	
Pollution remediation	379	
Amortization of deferred amounts	55,597	
Net expense accruals		44,095
- **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).		(7,741)
Change in net assets - governmental activities (see Exhibit A-2)		$ 1,402,270

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012
(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)	$ 187,873	$ 361,572	$ 26,500	$ 2,569
Investments (Note 3)	—	—	3,750	—
Securities lending collateral (Note 3)	16,302	37,065	3,059	51,710
Receivables: (Note 4)				
Accounts receivable, net	66,658	—	14,797	84
Intergovernmental receivable	29,344	84	—	66
Interest receivable	78	4,421	39	—
Premiums receivable	—	—	—	—
Contributions receivable, net	475,772	—	—	—
Notes receivable, net (Note 4)	—	60,687	—	—
Due from other funds (Note 10)	5,246	—	—	—
Due from component units (Note 19)	—	—	—	—
Inventories	—	—	4	1,420
Prepaid items	—	—	335	—
Restricted/designated cash and cash equivalents (Note 3)	—	—	—	333
Total current assets	781,273	463,829	48,484	56,182
Noncurrent Assets:				
Investments (Note 3)	—	—	45,417	—
Receivables: (Note 4)				
Contributions receivable, net	51,471	—	—	—
Notes receivable, net (Note 4)	—	814,214	—	—
Deferred charges	—	—	1,248	29,146
Restricted/designated cash and				
Restricted investments (Note 3)	—	—	—	873,308
Capital assets-nondepreciable (Note 5)	—	—	—	829,098
Capital assets-depreciable, net (Note 5)	—	75	672	183,944
Total noncurrent assets	51,471	814,289	47,337	1,915,496
Total Assets	832,744	1,278,118	95,821	1,971,678
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	12,216	72	31,611	23,286
Accrued payroll	—	—	413	—
Intergovernmental payable	21,934	—	—	5
Claims payable	—	—	—	—
Unemployment benefits payable	55,066	—	—	—
Obligations under securities lending	17,284	38,795	2,964	54,888
Interest payable	65,546	—	—	30,678
Due to other funds (Note 10)	260	27	10,175	1
Unearned revenue	4,199	—	—	—
Deposits payable	—	—	263	267
Annuity and life income payable (Note 8)	—	—	3,750	—
Notes payable (Note 8)	—	—	—	—
Capital leases payable (Note 8)	—	—	—	—
Bonds payable (Note 8)	—	—	—	22,725
Federal unemployment account advances (Note 8)	1,257,000	—	—	—
Compensated absences (Note 8)	—	24	162	16
Total current liabilities	1,433,505	38,918	49,338	131,866

Exhibit B-3

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 45,250	$ 623,764	$ 102,229
107,301	111,051	28,413
6,979	115,115	4,720
1,070	82,609	14,581
—	29,494	—
65	4,603	13
1,379	1,379	12
—	475,772	—
7	60,694	—
—	5,246	16,107
—	—	668
549	1,973	433
3,766	4,101	809
330	663	—
166,696	1,516,464	167,985
3,932	49,349	—
—	51,471	—
93	814,307	—
—	30,394	—
—	873,308	—
8,747	837,845	3,396
39,045	223,736	81,823
51,817	2,880,410	85,219
218,513	4,396,874	253,204
2,767	69,952	9,810
125	538	1,398
—	21,939	3
42,886	42,886	1,553
—	55,066	—
7,360	121,291	4,929
—	96,224	—
84	10,547	928
24,909	29,108	9,364
17	547	—
—	3,750	—
185	185	—
—	—	810
—	22,725	—
—	1,257,000	—
314	516	483
78,647	1,732,274	29,278

Continued

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012
(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	—	—	—	29,550
Advances from other funds (Note 10)	—	—	—	22,746
Annuity and life income payable (Note 8)	—	—	45,417	—
Notes payable (Note 8)	—	—	—	283,508
Capital leases payable (Note 8)	—	—	—	—
Bonds payable, net (Note 8)	—	—	—	1,233,488
Federal unemployment account advances (Note 8)	1,308,522	—	—	—
Compensated absences (Note 8)	—	493	1,066	163
Total noncurrent liabilities	1,308,522	493	46,483	1,569,455
Total Liabilities	2,742,027	39,411	95,821	1,701,321
Net Assets				
Invested in capital assets, net of related debt	—	75	673	346,629
Restricted for:				
Capital outlay	—	—	—	—
Other purposes	—	—	—	—
Unrestricted	(1,909,283)	1,238,632	(673)	(76,272)
Total Net Assets	$ (1,909,283)	$ 1,238,707	$ —	$ 270,357

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
—	29,550	—
—	22,746	—
—	45,417	—
3,125	286,633	—
—	—	447
—	1,233,488	—
—	1,308,522	—
4,806	6,528	5,466
7,931	2,932,884	5,913
86,578	4,665,158	35,191
44,501	391,878	83,962
326	326	—
1,142	1,142	—
85,966	(661,630)	134,051
$ 131,935	$ (268,284)	$ 218,013

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

For the Fiscal Year Ended June 30, 2012

(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	$ 1,406,646	$ —	$ —	$ —
Federal funds	66,930	—	—	—
Sales and services	—	4,618	1,596,456	169
Student tuition and fees, net	—	—	—	—
Interest earnings on loans	—	18,748	—	—
Rental and lease earnings	—	—	—	—
Fees, licenses, and fines	—	—	5,297	97
Toll revenues	—	—	—	398
Insurance premiums	—	—	—	—
Miscellaneous	—	—	84	—
Total operating revenues	1,473,576	23,366	1,601,837	664
Operating Expenses:				
Personal services	—	5,498	16,639	1,319
Supplies and materials	—	33	121	245
Services	—	1,838	159,026	3,088
Cost of goods sold	—	—	—	169
Depreciation	—	18	457	1,870
Lottery prizes	—	—	961,556	—
Claims	—	—	—	—
Unemployment benefits	3,192,301	—	—	—
Insurance and bonding	—	17	10	—
Other	—	288	4,100	5,525
Total operating expenses	3,192,301	7,692	1,141,909	12,216
Operating income (loss)	(1,718,725)	15,674	459,928	(11,552)
Nonoperating Revenues (Expenses):				
Noncapital grants	1,535,897	40,048	—	—
Noncapital gifts, net	—	—	—	—
Investment earnings	406	2,034	523	2,242
Interest and fees	(91,281)	—	—	(5,184)
Insurance recoveries	—	—	—	—
Grants, aid and subsidies	—	(6,284)	—	—
Gain (loss) on sale of equipment	—	16	—	—
Gain on extinguishment of debt	68,329	—	—	—
Federal interest subsidy on debt	—	—	—	12,218
Federal recovery funds	283,718	9,086	—	—
Miscellaneous	(318)	(63)	18	(165)
Total nonoperating revenues (expenses)	1,796,751	44,837	541	9,111
Income (loss) before contributions and transfers	78,026	60,511	460,469	(2,441)
Capital contributions	—	—	—	15,272
Transfers in (Note 10)	—	7,119	—	69,913
Transfers out (Note 10)	(18,616)	(523)	(460,469)	(2,727)
Change in net assets	59,410	67,107	—	80,017
Net assets — July 1, as restated (Note 24)	(1,968,693)	1,171,600	—	190,340
Net assets — June 30	$ (1,909,283)	$ 1,238,707	$ —	$ 270,357

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

Exhibit B-4

		Governmental Activities —
Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ —	$ 1,406,646	$ —
—	66,930	102
1,550	1,602,793	315,093
11	11	—
—	18,748	—
7,258	7,258	28
86,621	92,015	30
—	398	—
17,547	17,547	19,606
372	456	212
113,359	3,212,802	335,071
52,698	76,154	78,931
2,409	2,808	20,321
25,381	189,333	148,230
494	663	633
2,314	4,659	23,479
—	961,556	—
33,569	33,569	2,351
—	3,192,301	—
4,045	4,072	20,609
4,267	14,180	52,882
125,177	4,479,295	347,436
(11,818)	(1,266,493)	(12,365)
542	1,576,487	467
698	698	—
9,987	15,192	3,299
(16)	(96,481)	(100)
—	—	128
(8,570)	(14,854)	—
(19)	(3)	1,166
—	68,329	—
—	12,218	—
174	292,978	—
62	(466)	(1,846)
2,858	1,854,098	3,114
(8,960)	587,605	(9,251)
164	15,436	185
5,460	82,492	1,809
(1,897)	(484,232)	(484)
(5,233)	201,301	(7,741)
137,168	(469,585)	225,754
$ 131,935	$ (268,284)	$ 218,013

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2012

(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	$ 1,379,414	$ 4,618	$ 1,485,286	$ 582
Receipts from federal agencies	66,898	—	—	—
Receipts from other funds	—	—	—	—
Payments to suppliers	—	(1,943)	(51,955)	(5,672)
Payments to employees	—	(5,463)	(16,827)	(1,248)
Payments for prizes, benefits, and claims	(3,224,850)	—	(948,310)	—
Payments to other funds	—	—	—	—
Other receipts	—	—	50	—
Other payments	(299)	(219)	(17)	(2,034)
Net cash flows provided (used) by operating activities	(1,778,837)	(3,007)	468,227	(8,372)
Cash Provided From (Used For) Noncapital Financing Activities:				
Grant receipts	1,543,734	40,037	—	—
Federal recovery funds	294,368	9,096	—	—
Subsidy to other governments	—	(6,284)	—	—
Grants, aid, and subsidies	—	—	—	—
Advances from federal unemployment account	1,322,993	—	—	—
Payments to federal unemployment account	(1,225,311)	—	—	—
Interest expense and issuance cost	(78,453)	—	—	—
Advances from other funds	—	—	—	1,735
Transfers from other funds	—	7,119	—	—
Transfers to other funds	(18,616)	(523)	(457,764)	(2,727)
Gifts	—	—	—	—
Total cash provided from (used for) noncapital financing activities	1,838,715	49,445	(457,764)	(992)
Cash Provided From (Used For) Capital and Related Financing Activities:				
Acquisition and construction of capital assets	—	(12)	(310)	(272,239)
Proceeds from the sale of capital assets	—	3	—	—
Proceeds from capital debt	—	—	—	422,105
Transfers from other funds	—	—	—	69,913
Capital grants	—	—	—	15,616
Capital contributions	—	—	—	50
Principal paid on capital debt	—	—	—	—
Interest paid on capital debt	—	—	—	(49,753)
Federal subsidy for interest on debt	—	—	—	18,327
Insurance recoveries	—	—	—	—
Debt issuance costs paid	—	—	—	(2,849)
Total cash provided from (used for) capital and related financing activities	—	(9)	(310)	201,170
Cash Provided From (Used For) Investment Activities:				
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	—	4,629,115
Purchase of non-State Treasurer investments	—	—	—	(4,823,591)
Redemptions from State Treasurer investment pool	—	—	—	—
Loan issuances	—	(112,775)	—	—
Loan repayments — interest	—	19,771	—	—
Loan repayments — principal	—	64,661	—	—
Investment earnings	768	2,457	570	5,572
Total cash provided from (used for) investment activities	768	(25,886)	570	(188,904)
Net increase (decrease) in cash and cash equivalents	60,646	20,543	10,723	2,902
Cash and cash equivalents at July 1, as restated	127,227	341,029	15,777	—
Cash and cash equivalents at June 30	$ 187,873	$ 361,572	$ 26,500	$ 2,902

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
$ 113,534	$ 2,983,434	$ 47,599
—	66,898	102
—	—	294,573
(28,203)	(87,773)	(218,539)
(50,811)	(74,349)	(78,944)
(23,800)	(4,196,960)	(1,714)
—	—	(21,969)
338	388	225
(9,536)	(12,105)	(2,726)
1,522	(1,320,467)	18,607
542	1,584,313	467
174	303,638	—
—	(6,284)	—
(14,629)	(14,629)	—
—	1,322,993	—
—	(1,225,311)	—
—	(78,453)	(43)
—	1,735	—
5,460	12,579	1,809
(1,897)	(481,527)	(484)
698	698	—
(9,652)	1,419,752	1,749
(1,887)	(274,448)	(3,915)
18	21	1,945
51	422,156	—
—	69,913	—
—	15,616	—
52	102	—
(1,167)	(1,167)	(1,086)
(34)	(49,787)	(57)
—	18,327	—
—	—	128
—	(2,849)	—
(2,967)	197,884	(2,985)
11,728	4,640,843	—
(7,544)	(4,831,135)	—
10,004	10,004	—
—	(112,775)	—
—	19,771	—
—	64,661	—
354	9,721	251
14,542	(198,910)	251
3,445	98,259	17,622
42,135	526,168	84,607
$ 45,580	$ 624,427	$ 102,229

Continued

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:				
Operating income (loss)	$ (1,718,725)	$ 15,674	$ 459,928	$ (11,552)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation	—	18	457	1,870
Interest earnings on loans classified as investing activity	—	(18,748)	—	—
Nonoperating miscellaneous income (expense)	(299)	—	33	(16)
(Increases) decreases in assets:				
Receivables	(49,905)	—	(4,900)	(82)
Due from other funds	1,802	—	—	—
Due from component units	—	—	—	—
Inventories	—	—	12	(1,420)
Prepaid items	—	—	(1,403)	—
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities	10,722	8	13,799	2,717
Due to other funds	(2,820)	6	—	(227)
Unemployment benefits payable	(19,570)	—	—	—
Compensated absences	—	35	65	71
Unearned revenue	(42)	—	(27)	—
Deposits payable	—	—	263	267
Total cash provided from (used for) operations	$ (1,778,837)	$ (3,007)	$ 468,227	$ (8,372)
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	—	—	—	22,910
Gain on extinguishment of debt	68,329	—	—	—
Assets acquired through the assumption of a liability	—	—	10,547	—
Change in fair value of investments	355	(366)	71	459
Increase in receivables related to nonoperating income	—	—	—	—
Change in securities lending collateral	6,022	8,131	1,466	9,998

Exhibit B-5

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ (11,818)	$ (1,266,493)	$ (12,365)
2,314	4,659	23,479
—	(18,748)	—
71	(211)	(1,837)
164	(54,723)	135
—	1,802	5,848
—	—	(44)
(14)	(1,422)	(86)
(230)	(1,633)	468
10,649	37,895	1,633
7	(3,034)	163
—	(19,570)	—
173	344	(263)
283	214	1,476
(77)	453	—
$ 1,522	$ (1,320,467)	$ 18,607
$ 3,899	$ 3,899	$ 1,692
—	—	185
—	22,910	—
—	68,329	—
—	10,547	984
5,781	6,300	1,360
112	112	—
(1,073)	24,544	(111)

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012 *Exhibit B-6*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents (Note 3)	$ 926,717	$ 12,491	$ 113,415	$ 4,564,226
Investments (Note 3):				
U.S. government and agency securities	—	—	526	—
Corporate bonds	—	—	—	7,145
Corporate stocks	—	—	—	2,168
Certificates of deposit	—	—	56,535	325
Collective investment funds	217,562	—	—	—
State Treasurer investment pool	75,320,731	1,009,944	8,800	40,673
Unallocated insurance contracts	790,042	—	—	—
Synthetic guaranteed investment contracts	1,064,757	—	—	—
Non-State Treasurer pooled investments	4,075,463	—	—	—
Securities lending collateral (Note 3)	1,782,364	88,847	502	414,434
Receivables:				
Taxes receivable	—	—	—	119,700
Accounts receivable	24,246	—	—	15,738
Interest receivable	532	2,050	2	—
Contributions receivable	134,599	—	—	—
Due from other funds (Note 10)	53,091	—	—	26,779
Due from component units	7,410	—	—	—
Notes receivable	263,647	—	—	—
Sureties	—	—	869,382	97,888
Total Assets	84,661,161	1,113,332	1,049,162	5,289,076
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	1,307	—	—	385
Intergovernmental payable	—	—	—	560,940
Benefits payable	74,425	—	—	—
Obligations under securities lending	1,866,943	93,334	533	433,075
Deposits payable	—	—	—	1,969
Funds held for others	—	—	—	4,292,707
Total Liabilities	1,942,675	93,334	533	5,289,076
Net Assets				
Held in trust for:				
Employees' pension and other benefits	82,718,486	—	—	—
Pool participants	—	1,019,998	—	—
Individuals, organizations, and other governments	—	—	1,048,629	—
Total Net Assets	$ 82,718,486	$ 1,019,998	$ 1,048,629	$ —

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, 2012 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
Additions:			
Contributions:			
Employer	$ 2,398,443	$ —	$ —
Members	1,493,309	—	—
Trustee deposits	—	—	143,060
Other contributions	42,381	—	—
Total contributions	3,934,133	—	143,060
Investment income:			
Investment earnings	2,056,420	9,471	3,590
Less investment expenses	(360,309)	(639)	(1)
Net investment income	1,696,111	8,832	3,589
Pool share transactions:			
Reinvestment of dividends	—	8,832	—
Net share purchases/(redemptions)	—	132,040	—
Net pool share transactions	—	140,872	—
Other additions:			
Fees, licenses, and fines	3,682	—	—
Interest earnings on loans	11,527	—	—
Miscellaneous	3,673	—	—
Total other additions	18,882	—	—
Total additions	5,649,126	149,704	146,649
Deductions:			
Claims and benefits	4,952,525	—	—
Medical insurance premiums	692,506	—	—
Refund of contributions	149,815	—	—
Distributions paid and payable	—	8,832	—
Payments in accordance with trust arrangements	—	—	158,320
Administrative expenses	20,555	—	—
Other deductions	25	—	—
Total deductions	5,815,426	8,832	158,320
Change in net assets	(166,300)	140,872	(11,671)
Net assets — July 1	82,884,786	879,126	1,060,300
Net assets — June 30	$ 82,718,486	$ 1,019,998	$ 1,048,629

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.

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 ten-member board of trustees including the State Treasurer, an ex officio member who serves as chair and votes only in the event of a tie; the Director of the Office of State Budget and Management, a non-voting, ex officio member; two members appointed by the Governor; two members appointed by the State Treasurer; and four members appointed by the General Assembly. Health benefits and contribution rates are determined by the State Treasurer upon approval of the board of trustees. The State of North Carolina makes significant contributions to the Plan as an employer and through its funding of local boards of education.

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. Six of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority. 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.

North Carolina Health Insurance Risk Pool, Inc.

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

Complete financial statements of the individual community colleges can be obtained from their respective administrative offices. The addresses of the individual community colleges are available on the internet home page for the N.C. Community College System as follows:

http://www.nccommunitycolleges.edu (click "Colleges then "Find Colleges").

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

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, 2012, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2011, 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, 2011. 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 administrative costs of this program are reported in the General Fund. The unemployment benefits are financed primarily by State unemployment insurance taxes, distributions of federal unemployment insurance taxes, and federal funding for the unemployment benefits of civilian and military employees. During fiscal year 2012, 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 N.C. Education Lottery Commission was created as an independent, self-supporting and revenue raising entity. The purpose of the lottery is to generate funds to provide enhanced educational opportunities, support school construction, and fund college and university scholarships. The net profits of the fund are transferred periodically to the General Fund as required by general statutes.

EPA Revolving Loan Fund

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

North Carolina Turnpike Authority

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

Additionally, the State reports the following fund types:

Internal Service Funds

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

Pension and Other Employee Benefits Trust Funds

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

Investment Trust Funds

These funds account for the external portion of the Investment Pool sponsored by the Department of State Treasurer and individual investment accounts held by the Department of State Treasurer for public hospitals that are not part of the State reporting entity.

Private-purpose Trust Funds

These funds account for resources held in trust for insurance carriers, designated beneficiaries by the Administrative Office of the Courts, and other departmental trust funds in which the principal and income benefit individuals, private organizations, or other governments.

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 3A) as well as investments held separately by the State and its component units. Investments are generally reported at fair value (generally based on quoted market prices, except as discussed in Note 3) with significant exceptions noted below.

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

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

F. Securities Lending

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

G. Receivables and Payables

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

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

H. Inventories and Prepaid Items

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

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

I. 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.
- Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted or committed to those purposes.

For classification of governmental fund balances, the State considers an expenditure to be made from the most restrictive resource (i.e., restricted, committed, assigned, and unassigned in that order) when more than one fund balance classification is available for use.

In accordance with G.S. 143C–4–2, the Savings Reserve Account is established as a reserve in the General Fund for budgetary purposes. The State Controller shall reserve to the Savings Reserve Account, one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. Funds reserved to the Savings Reserve Account are available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent of the prior year's General Fund appropriation budget. At June 30, 2012, the balance of the Savings Reserve Account was $418.81 million, which represents 2.2% of the prior year's General Fund appropriation budget.

P. Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as noncapital grants and investment earnings, result from nonexchange transactions or ancillary activities. Capital contributions are reported separately, after nonoperating revenues and expenses.

Q. Food and Nutrition Services

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the State recognizes distributions of food and nutrition services benefits as revenue and expenditures in the General Fund. Revenues and expenditures are recognized based on the fair market value at the time the benefits are distributed to the individual recipients. In North Carolina, benefits are distributed in electronic form, thus distribution takes place when the individual recipients use the benefits.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Equity Deficit

Primary Government

At June 30, 2012, the following enterprise funds reported a net assets deficit: Workers' Compensation, $1.501 million and Utilities Commission, $349 thousand.

At June 30, 2012, the following internal service fund reported a net assets deficit: Surplus Property, $273 thousand.

B. Material Violations of Legal or Contractual Provisions

Component Units

Chatham Hospital, Inc (the Hospital) which is a part of the University of North Carolina System (a component unit of the State), issued $30.54 million of FHA Insured North Carolina Medical Care Commission Mortgage Revenue Bonds, Series 2007 on February 8, 2007. The issued bonds are subject to mandatory sinking fund requirements prior to their due dates. There are certain covenants associated with the Series 2007 bonds that are outlined in the master trust indenture, loan agreement, and regulatory agreement. The most restrictive of these covenants requires maintenance of a long term debt service coverage ratio, as defined, of greater than 1.5. The Hospital also had a loss from operations that was equal or greater than 1% of total operating revenues. Management acknowledges that the Hospital was in violation of certain covenants and requirements of those agreements at June 30, 2012.

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 recovery. 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.

The CEO and CFO retired in December 2011. Upon arrival of the new CEO, plans were begun to open a multi-specialty surgery office. This office will see patients in a clinical setting and then any procedures will be performed at the Hospital. The specialties include general surgery, ophthalmology, otolaryngology, gynecology, and orthopedics.

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

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

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

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

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

External Investment Pool

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

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

Long-term Investment – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher 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, 2012, there were fifteen participants. Each participant is responsible for making its own investment decision. However, through signed agreements with the State Treasurer, each participant has delegated its investment authority to the State Treasurer.

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, 2012

Assets:		
Cash and cash equivalents	$	184,878
Other assets		336,932
Investments		90,476,925
Total assets		90,998,735
Liabilities:		
Other payables		40,640
Obligations under securities lending		3,095,220
Total liabilities		3,135,860
Net Assets:		
Internal:		
Primary government		82,938,063
Component units		3,981,028
External		943,784
Total net assets	$	87,862,875

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

Revenues:		
Investment income	$	2,204,486
Expenses:		
Securities lending		3,857
Investment management		390,378
Total expenses		394,235
Net increase in net assets resulting from operations		1,810,251
Distributions to participants:		
Distributions paid and payable		(1,810,251)
Share transactions:		
Reinvestment of distributions		1,813,855
Net share redemptions		(1,592,798)
Total increase in net assets		221,057
Net assets:		
Beginning of year		87,641,818
End of year	$	87,862,875

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

The fair value of fixed income securities are calculated by a third party pricing vendor based on future principal and interest payments discounted using market yields. For the Alternative Investment portfolio (private equity investment partnerships and hedge funds), the Real Estate Investment portfolio (limited partnerships and other investments), the Credit Investment and Inflation Protection Investment portfolios (limited partnerships) the methodology for determining an estimated fair value is established by the general partner which may utilize a third party pricing source or an independent real estate appraiser. These partnerships and funds are valued using their respective net asset value (NAV), and are audited annually. The most significant input into the NAV of such an entity is the fair value of its holdings. These non-publicly traded assets are valued at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. The fair values of certain investments may require significant management judgment or estimation. Fair value is determined using the best information available for a hypothetical transaction at the measurement date, not using forced sale or fire sale pricing. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values. Additional investment valuation information is provided in Note 1.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2012, $651 thousand of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were exposed to custodial credit risk for nonnegotiable certificates of deposit in the amount of $35.8 million. The nonnegotiable certificates of deposit were uninsured and were collateralized with securities not in the name of the State and held by an agent.

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

Investments

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

Investment Type	Carrying Amount	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries	$ 14,591,266	$ 5,842,430	$ 539,098	$ 4,763,524	$ 3,446,214
U.S. agencies	6,963,382	398,717	5,345,450	391,305	827,910
Mortgage pass-throughs	7,015,312	—	1,496	6,430	7,007,386
Collateralized mortgage obligations	111,337	43,043	—	—	68,294
Asset-backed securities	228,794	149,093	—	8,743	70,958
Repurchase agreements	1,725,000	1,725,000	—	—	—
Commercial mortgage-backed securities	188,091	33,655	—	—	154,436
Collective investment funds	202,446	202,446	—	—	—
Domestic corporate bonds	10,735,477	21,378	854,213	5,265,841	4,594,045
Foreign government bonds	36,028	—	—	36,028	—
Securities purchased with cash collateral under securities lending program:					
U.S. Treasuries	18,513	18,513	—	—	—
U.S. agencies	30,667	30,667	—	—	—
Asset-backed securities	689,482	689,482	—	—	—
Negotiable certificates of deposit	480,282	480,282	—	—	—
Repurchase agreements	891,115	891,115	—	—	—
Commercial paper	292,178	292,178			
Domestic corporate bonds	414,073	414,073	—	—	—
	44,613,443	$ 11,232,072	$ 6,740,257	$ 10,471,871	$ 16,169,243
Other investments:					
Equity based trust - domestic	20,113,524				
Equity based trust - international	11,875,080				
OPEB equity based trust- domestic	40,038				
OPEB equity based trust- international	12,741				
Alternative investments:					
Hedge funds	267,937				
Private equity investment partnerships	3,458,610				
Stock distributions	2,928				
Real estate trust funds	5,735,269				
Credit investments	3,069,976				
Inflation protection investments	1,251,579				
Total investments	$ 90,441,125				

In addition to the above amount, nonnegotiable certificates of deposit in the amount of $35.8 million, 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	$ 12,508,256	0.00%-8.875%
U.S. agencies	6,785,207	0.00%-7.125%
Mortgage pass-throughs	6,363,789	3.50%-9.00%
Collateralized mortgage obligations	154,008	0.31%-6.50%
Commercial mortgage-backed securities	1,975,371	0.04%-8.65%
Asset-backed securities	325,661	0.30%-9.50%
Domestic corporate bonds	9,227,555	0.50%-10.50%
Foreign government bonds	35,000	2.45%-5.125%
Repurchase agreements	1,725,000	0.18%-0.21%
Collective investment funds	202,446	0.01%-0.246%
Securities purchased with cash collateral under securities lending program:		
U.S Treasuries	18,520	0.00%
U.S. agencies	30,675	0.19%-0.21%
Asset-backed securities	920,132	0.27%-0.69%
Negotiable certificates of deposit	480,230	0.17%-0.66%
Repurchase agreements	891,115	0.15%-0.25%
Commercial paper	292,300	0.00%
Domestic corporate bonds	462,930	0.00%-0.79%
Equity-based trust - domestic	n/a	n/a
Equity-based trust - international	n/a	n/a

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

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

Interest Rate Risk. Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.5 years as of June 30, 2012. 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 may carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates as similar securities without call options.

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 External Fixed Income Investment portfolio holds investments in asset-backed securities and collateralized mortgage obligations. The focus is on fixed and floating rate, short duration securities with an average duration of less than 2.5 years. Securities must carry an investment grade rating 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 externally managed External Fixed Income Investment portfolio are commercial mortgage-backed securities with a focus on structures with fixed rates and average life of less than six years. Securities must carry an investment grade rating at the time of purchase.

Critical to the pricing of asset-backed and mortgage-backed securities are the specific features of cash flows from the interest and principal payments of the underlying assets. Therefore, valuations are 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	$ —	$ 6,940,332	$ 23,050	$ —	$ —	$ —
Collateralized mortgage obligations	1,648	21,497	7,949	19,197	42,918	18,128
Commercial mortgage-backed securities	1,024	—	362	53,037	133,631	37
Asset-backed securities	—	115,237	49,329	41,190	23,038	—
Repurchase agreements	—	1,725,000	—	—	—	—
Collective investment funds	—	—	—	—	—	202,446
Domestic corporate bonds	77,172	494,998	5,118,223	4,618,344	426,740	—
Foreign government bonds	—	24,676	11,352	—	—	—
Securities purchased with cash collateral under securities lending program:						
U.S. agencies	—	30,667	—	—	—	—
Asset-backed securities	444,990	—	21,043	4,570	218,879	—
Negotiable certificates of deposit	—	—	480,282	—	—	—
Repurchase agreements	13,098	877,637	380	—	—	—
Commercial paper	—	—	292,178	—	—	—
Domestic corporate bonds	—	282,917	117,049	—	—	14,107
Total	$ 537,932	$ 10,512,961	$ 6,121,197	$ 4,736,338	$ 845,206	$ 234,718

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 $2.8 billion were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

NOTES TO THE FINANCIAL STATEMENTS

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The State Treasurer's investment risk policy places no limit on the amount that may be invested in any one issuer other than the General Statute 147-69.2(b)(8) that limits the market value of an investment in the stock of a single corporation to one and one-half percent of the Retirement Systems' assets. At the fiscal year end, there were no stocks of a single corporation that exceeded this limit. However, more than 5% of the total Investment Pool's securities are invested in the Federal National Mortgage Association. These investments totaled $5.169 billion and comprise 5.71% of the Investment Pool's total investments. These investments are held by the Short-term, Long-term, Inflation Protection portfolios and in the securities lending cash collateral pool and are classified as repurchase agreements and U.S. agencies.

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

	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	$ 3,176,580	$ 458,620	$ 111,688	$ 2,429	$ 3,749,317
Japanese Yen	2,085,858	—	30,127	1,920	2,117,905
Pound Sterling	1,988,827	—	49,718	1,935	2,040,480
Swiss Franc	767,848	—	3,365	772	771,985
Hong Kong Dollar	646,398	—	45,648	810	692,856
Canadian Dollar	664,731	—	6,876	915	672,522
Australian Dollar	606,395	—	30,196	642	637,233
South Korean Won	349,153	—	—	421	349,574
Swedish Krona	236,131	—	2,393	217	238,741
New Taiwan Dollar	206,068	—	—	8	206,076
Brazil Cruzeiro Real	191,564	—	2,322	262	194,148
Singapore Dollar	177,441	—	5,821	148	183,410
Danish Krone	134,584	—	—	214	134,798
Other Currencies	643,502	—	296	779	644,577
Total	$ 11,875,080	$ 458,620	$ 288,450	$ 11,472	$ 12,633,622

The State Treasurer has no formal policy regarding the maximum amount of investments in international securities. At year-end, the retirement systems had approximately 17% 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. Under the current 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 25 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 investments with potential losses were identified. The State Treasurer directed that all securities lending revenues would be deposited into a separate account. These funds are invested into a collective investment trust fund, and are included on the Statement of Net 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 $298.2 million, and had accrued $161.9 million in the separate account.

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

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

Bond Proceeds Investment Accounts

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

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

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Debt investments:		
State and local government ...	$ 7,205	7
Repurchase agreements	59,833	9
Total investments	$ 67,038	

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 investments.

Public Hospitals Investment Account

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

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

Investment Type	Carrying Amount
Other investments:	
Equity based trust - domestic	$ 57,352
Equity based trust - international	15,786
External investment pool-long-term ...	3,076
Total investments	$ 76,214

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):

NOTES TO THE FINANCIAL STATEMENTS

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 3,009
Pound Sterling	2,397
Japanese Yen	2,379
Canadian Dollar	1,134
Hong Kong Dollar	1,004
Swiss Franc	957
Australian Dollar	796
South Korean Won	521
Brazil Cruzeiro Real	324
Swedish Krona	269
Denmark Krone	265
Norwegian Krone	204
South African Rand	198
Singapore Dollar	183
Mexican Peso	148
Other Currencies	426
Total	$ 14,214

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 investments:	
Private equity investment partnerships	$ 39,479
Public equities - domestic	161
Public equities - international	69
Total investments	$ 39,709

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 insignificant.

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	$ 4,404
Total	$ 4,404

Component Units

(University of North Carolina System and The Golden LEAF, Inc.)

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	$ 45,719
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name	85
Total	$ 45,804

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	$ 283
Total	$ 283

C. Investments Outside the State Treasurer

Primary Government

At year-end, 70% 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 custodial credit risk or foreign currency risk.

At December 31, 2011, 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 investments:					
Stable Value Fund					
U.S. Treasuries	$ 22,445	$ 256	$ 22,189	$ —	$ —
U.S. agencies	56,576	32,512	24,064	—	—
Mortgage pass-throughs	24,413	12,505	—	—	11,908
Collateralized mortgage obligations	11,004	2,161	906	7,937	—
State and local government	5,049	—	3,183	1,866	—
Asset-backed securities	10,254	4,197	4,187	—	1,870
Collective investment funds	847,947	82,041	765,906	—	—
Domestic corporate bonds	73,394	11,829	57,228	4,337	—
Foreign corporate bonds	29,807	9,880	19,927	—	—
Foreign government bonds	13,493	6,010	6,742	741	—
	1,094,382	$ 161,391	$ 904,332	$ 14,881	$ 13,778
Other investments:					
Pooled Separate Account SA-NC	3,624,032				
Stable Value Fund					
Unallocated insurance contracts	650,231				
Total investments	$ 5,368,645				

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the Statement of Net Assets, SGICs are reported at contract value. At year-end, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by $39.22 million.

Interest Rate Risk. The 401(k) Plan has a formal investment policy that limits duration as a means of managing its exposure to fair value losses arising from increasing interest rates. The overall duration of the underlying securities in the Stable Value Fund will be between 2 and 3.5 years. The average duration of the separate accounts fixed income fund is targeted to be within plus or minus 25% of the Barclay's Capital Aggregate Bond Index. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Commercial mortgage-backed securities, which are included in asset-backed securities, are asset-backed securities whose cash flows are backed by the principal and interest payments of commercial or multifamily property mortgage loans. The sensitivity to changes in interest is considered lower as these types of securities are usually collateralized by fixed-rate mortgages that often contain lockout provisions for prepayment or are subject to prepayment penalties.

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk. The 401(k) Plan has a formal investment policy on credit risk for the Stable Value Fund. The Plan's investment policy for the Stable Value Fund requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's (S&P) or Fitch rating of BBB- or Moody's rating of Baa3. The average credit quality of the underlying fixed income investments in the Stable Value Fund will be S&P AA or Moody's Aa2. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investments funds are sensitive to changes in interest rates. Collateralized mortgage securities generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. 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):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Stable Value Fund						
U.S. agencies	$ —	$ 43,360	$ —	$ —	$ —	$ —
Mortgage pass-throughs	—	19,984	—	—	—	—
Collateralized mortgage obligations	—	7,003	—	—	—	—
State and local government	—	—	5,049	—	—	—
Asset-backed securities	10,254	—	—	—	—	—
Collective investment funds	—	—	—	—	—	847,947
Domestic corporate bonds	616	8,703	32,160	31,915	—	—
Foreign corporate bonds	2,447	4,151	13,812	9,397	—	—
Foreign government bonds	2,342	1,535	5,900	3,716	—	—
Total	$ 15,659	$ 84,736	$ 56,921	$ 45,028	$ —	$ 847,947

Custodial Credit Risk. At December 31, 2011, 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
Stable Value Fund	
U.S. Treasuries	$ 22,445
U.S. agencies	56,576
Mortgage pass-throughs	24,413
Collateralized mortgage obligations	11,004
State and local government	5,049
Asset-backed securities	10,254
Domestic corporate bonds	73,394
Foreign corporate bonds	29,807
Foreign government bonds	13,493
Total	$ 246,435

Securities Lending

The 401(k) Plan had 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.

In January 2011, an amendment to the securities lending authorization agreement was signed to wind down the lending activity. The liquidation of the securities on loan was finalized by the end of March 2011 for the 401(k) Plan. As a result, there were no securities of loan or investment in pooled fund held as collateral under securities lending transactions at year-end and the 401(k) Plan's portion of income received under the agreement for the year was insignificant.

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 and revenue 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.

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 investments:					
U.S. Treasuries	$ 6,475	$ 41	$ 6,128	$ 306	$ —
U.S. Treasury STRIPS	409	25	384	—	—
U.S. agencies	112,698	11,525	99,007	2,166	—
Mortgage pass-throughs	5,568	2,896	—	—	2,672
Collateralized mortgage obligations	2,622	437	238	1,947	—
State and local government	3,604	2,500	689	415	—
Asset-backed securities	3,528	2,307	857	—	364
Repurchase agreements	530,639	530,639	—	—	—
Commercial paper	6,625	6,625	—	—	—
Annuity contracts	49,167	3,750	18,750	18,750	7,917
Debt mutual funds	98	—	—	98	—
Collective investment funds	182,277	16,535	165,742	—	—
Money market mutual funds	119,513	119,513	—	—	—
Domestic corporate bonds	16,585	3,643	11,990	952	—
Foreign corporate bonds	6,581	2,069	4,512	—	—
Foreign government bonds	2,912	1,237	1,475	200	—
Pooled debt funds	508,095	507,547	43	185	320
	1,557,396	$ 1,211,289	$ 309,815	$ 25,019	$ 11,273
Other investments:					
Equity mutual funds	1,113				
Domestic stocks	58,185				
Pooled Separate Account SA-NC	451,431				
Stable Value Fund					
Unallocated insurance contracts	139,811				
Total investments	$ 2,207,936				

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

NOTES TO THE FINANCIAL STATEMENTS

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	$ 101,487	$ 8,668	$ —	$ 58	$ —	$ —
Mortgage pass-throughs	—	4,617	—	—	—	—
Collateralized mortgage obligations	—	1,826	—	—	—	—
State and local government	2,500	—	1,104	—	—	—
Asset-backed securities	3,528	—	—	—	—	—
Commercial paper	—	6,625	—	—	—	—
Annuity contracts	—	49,167	—	—	—	—
Debt mutual funds	2	17	9	3	61	6
Collective investment funds	—	—	—	—	—	182,277
Money market mutual funds	118,326	1,138	—	—	—	49
Domestic corporate bonds	—	1,111	7,302	8,172	—	—
Foreign corporate bonds	565	1,014	2,896	2,106	—	—
Foreign government bonds	519	452	1,145	796	—	—
Pooled debt funds	282	136	52	51	19	507,555
Total	$ 227,209	$ 74,771	$ 12,508	$ 11,186	$ 80	$ 689,887

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

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	$ 6,106
U.S. agencies	11,153
Mortgage pass-throughs	5,568
Collateralized mortgage obligations	2,622
State and local government	1,104
Asset-backed securities	3,528
Domestic corporate bonds	16,585
Foreign corporate bonds	6,581
Foreign government bonds	2,912
Total	$ 56,159

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.

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.

Investments of the University of North Carolina at Chapel Hill for which a readily determinable fair value does not exist include investments in certain commingled funds and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments or third party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The majority of private equity limited partnerships and real assets limited partnerships are subject to fair value estimation, which includes discounted cash flow and transaction comparison. The estimated fair value of these investments is $1.02 billion.

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

Investment Type	Carrying Amount	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries	$ 56,481	$ 15,433	$ 35,327	$ 3,014	$ 2,707
U.S. agencies	164,702	18,132	20,620	9,876	116,074
Mortgage pass-throughs	17,341	987	4,818	2,075	9,461
Collateralized mortgage obligations	84,366	24,423	133	408	59,402
State and local government	130	—	—	130	—
Asset-backed securities	6,182	5,152	—	—	1,030
Commercial paper	373	373	—	—	—
Annuity contracts	63	—	—	—	63
Debt mutual funds	160,531	—	70,530	84,967	5,034
Money market mutual funds	396,720	396,720	—	—	—
Domestic corporate bonds	34,261	10,065	21,880	828	1,488
Foreign corporate bonds	50	—	50	—	—
Foreign government bonds	36	—	—	—	36
	921,236	$ 471,285	$ 153,358	$ 101,298	$ 195,295
Other investments:					
Balanced mutual fund	506				
International mutual funds	215,506				
Equity mutual funds	224,586				
Investments in real estate	33,110				
Real estate investment trusts	1,039				
Hedge funds	1,463,382				
Private equity limited partnerships	879,949				
Real assets limited partnerships	484,427				
Pooled investments	45				
Domestic stocks	172,180				
Foreign stocks	3,495				
Other	35,615				
Total investment securities	$ 4,435,076				

NOTES TO THE FINANCIAL STATEMENTS

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

	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	$ 323	$ 157,996	$ —	$ —	$ —	$ 23
Mortgage pass-throughs	9	1	—	—	24	17,307
Collateralized mortgage obligations	40	54,539	275	50	29,462	—
State and local government	—	—	—	130	—	—
Asset-backed securities	—	—	—	—	6,182	—
Commercial paper	373	—	—	—	—	—
Debt mutual fund	3,780	81,897	17,610	3,637	49,910	3,697
Money market mutual funds	318,504	—	9,381	—	—	68,835
Domestic corporate bonds	93	7,268	24,549	1,194	1,157	—
Foreign corporate bonds	—	—	—	30	20	—
Foreign government bonds	—	—	36	—	—	—
Total	$ 323,122	$ 301,701	$ 51,851	$ 5,041	$ 86,755	$ 89,862

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	$ 24,072	$ 394
U.S. agencies	6,683	—
Mortgage pass-throughs	17,306	—
Collateralized mortgage obligations	562	—
Commercial paper	373	—
Domestic corporate bonds	11,428	—
Domestic stocks	15,859	66
Foreign stocks	14	7
Total	$ 76,297	$ 467

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	$ 160	$ 8,083	$ 69,278	$ 26,433
Pound Sterling	24	—	9,187	1,086
Australian Dollar	22	—	4,783	—
Canadian Dollar	—	—	—	4,061
Japanese Yen	21	—	9	—
Swiss Franc	6	—	—	—
Total	$ 233	$ 8,083	$ 83,257	$ 31,580

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, 2012, for the Authority's investments (dollars in thousands):

		Investment Maturities (in Years)
Investment Type	Carrying Amount	Less Than 1
Debt investments:		
Annuity contracts	$ 1,190	$ 1,190
Debt mutual funds	355,470	355,470
Money market mutual funds ..	230,647	230,647
	587,307	$ 587,307
Other investments:		
International mutual funds	125,590	
Equity mutual funds	340,920	
Total investment securities	$ 1,053,817	

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, 2012, the Authority's investments were rated as follows (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch
Investment Type	Unrated
Annuity contracts	$ 1,190
Debt mutual funds	355,470
Money market mutual funds ..	230,647
Total	$ 587,307

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.

Investments of The Golden LEAF, Inc. (Foundation) for which a readily determinable fair value does not exist include investments in certain international equity funds, absolute return funds, private equity limited partnerships, and real asset limited partnerships. The investments are carried at estimated fair value as determined by the underlying asset's manager. The investment asset managers estimate current fair value of non-publicly traded assets in their portfolios taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions and other pertinent information. The Foundation reviews the values provided by the asset managers as well as the assumptions used in determining fair value. These investment values may differ from the values that would have been used had a ready market for these investments existed and differences could be material. The financial statements of these investments are audited at least annually (typically at December 31st) by independent auditors. At June 30, 2012, fair value of investments based on other than quoted market prices was $443.9 million.

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 investments:		
U.S. Treasuries	$ 48,149	5.68
Money market mutual funds	35,691	0.08
Debt mutual funds	50,837	2.48
	134,677	
Other investments:		
Equity mutual funds	125,673	
Hedge funds	173,077	
Private equity limited partnerships	85,524	
Real assets limited partnerships	48,824	
Pooled investments	126,509	
Domestic stocks	98,467	
Total investment securities	$ 792,751	

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, 2012, 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	$ 35,691	$ —
Debt mutual funds	—	50,837
Total	$ 35,691	$ 50,837

Foreign Currency Risk 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, 2012, are reported net of allowances for doubtful accounts as follows (dollars in thousands):

Governmental Activities:

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds	Total
Receivables, gross (excluding notes)..	$ 3,678,710	$ 241,392	$ 45,138	$ 24,319	$ 14,606	$ 4,004,165
Allowance for doubtful accounts.........	(880,355)	(39,792)	—	(17)	—	(920,164)
Receivables, net..............................	$ 2,798,355	$ 201,600	$ 45,138	$ 24,302	$ 14,606	$ 3,084,001
Notes receivable, gross.......................	$ 116,779	$ 913	$ 66	$ 40,430	$ —	$ 158,188
Allowance for doubtful accounts.........	(54,019)	—	—	—	—	(54,019)
Notes receivable, net.......................	$ 62,760	$ 913	$ 66	$ 40,430	$ —	$ 104,169

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are $28.743 million of accounts, intergovernmental, and notes receivables.

Business-Type Activities:

	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority	Other Enterprise Funds	Total
Receivables, gross (excluding notes)..	$ 730,540	$ 4,505	$ 14,836	$ 150	$ 2,536	$ 752,567
Allowance for doubtful accounts.........	(107,217)	—	—	—	(22)	(107,239)
Receivables, net..............................	$ 623,323	$ 4,505	$ 14,836	$ 150	$ 2,514	$ 645,328
Notes receivable, gross.......................	$ —	$ 874,901	$ —	$ —	$ 100	$ 875,001
Allowance for doubtful accounts.........	—	—	—	—	—	—
Notes receivable, net.......................	$ —	$ 874,901	$ —	$ —	$ 100	$ 875,001

Within business-type activities, the significant receivables not expected to be collected within one year are $814.214 million of notes receivable in the EPA Revolving Loan Fund and $51.471 million of contributions receivable in the Unemployment Compensation Fund. Revenues of other enterprise funds are net of uncollectible amounts.

NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2012 is presented below (dollars in thousands).

Governmental Activities:

	Balance July 1, 2011 (as restated)	Additions	Deductions	Balance June 30, 2012
Capital Assets, nondepreciable:				
Land and permanent easements	$ 14,397,753	$ 656,248	$ (15,826)	$ 15,038,175
Art, literature, and other artifacts	87,402	28	(1)	87,429
Construction in progress	2,232,547	1,488,963	(1,855,822)	1,865,688
Computer software in development	128,905	171,717	(14,126)	286,496
Total capital assets-nondepreciable	16,846,607	2,316,956	(1,885,775)	17,277,788
Capital Assets, depreciable:				
Buildings	3,162,788	455,125	(15,714)	3,602,199
Machinery and equipment	1,602,072	114,195	(83,975)	1,632,292
General infrastructure	205,641	39,598	(10,286)	234,953
State highway system	27,251,303	1,371,134	(76,613)	28,545,824
Computer software	24,160	14,333	(3,950)	34,543
Total capital assets-depreciable	32,245,964	1,994,385	(190,538)	34,049,811
Less accumulated depreciation for:				
Buildings	(879,406)	(62,404)	4,570	(937,240)
Machinery and equipment	(1,025,237)	(106,494)	69,099	(1,062,632)
General infrastructure	(73,134)	(4,923)	1,462	(76,595)
State highway system	(7,719,043)	(570,916)	75,081	(8,214,878)
Computer software	(7,459)	(1,549)	3,216	(5,792)
Total accumulated depreciation	(9,704,279)	(746,286)	153,428	(10,297,137)
Total capital assets-depreciable, net	22,541,685	1,248,099	(37,110)	23,752,674
Governmental activities capital assets, net	$ 39,388,292	$ 3,565,055	$ (1,922,885)	$ 41,030,462

Business-type Activities:

	Balance July 1, 2011 (as restated)	Additions	Deductions	Balance June 30, 2012
Capital Assets, nondepreciable:				
Land and permanent easements	$ 118,255	$ 25,409	$ —	$ 143,664
Construction in progress	578,899	301,076	(185,794)	694,181
Total capital assets-nondepreciable	697,154	326,485	(185,794)	837,845
Capital Assets, depreciable:				
Buildings	50,501	35	(30)	50,506
Machinery and equipment	15,147	1,347	(477)	16,017
General infrastructure	15,654	—	—	15,654
State highway system	—	185,794	—	185,794
Computer software	180	—	—	180
Total capital assets-depreciable	81,482	187,176	(507)	268,151
Less accumulated depreciation for:				
Buildings	(20,926)	(999)	30	(21,895)
Machinery and equipment	(8,812)	(1,387)	419	(9,780)
General infrastructure	(10,245)	(502)	—	(10,747)
State highway system	—	(1,858)	—	(1,858)
Computer software	(135)	—	—	(135)
Total accumulated depreciation	(40,118)	(4,746)	449	(44,415)
Total capital assets-depreciable, net	41,364	182,430	(58)	223,736
Business-type activities capital assets, net	$ 738,518	$ 508,915	$ (185,852)	$ 1,061,581

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

Governmental activities:	
General government	$ 34,150
Primary and secondary education	1,812
Higher education	105
Health and human services	14,978
Economic development	445
Environment and natural resources	13,490
Public safety, corrections, and regulation	52,706
Transportation	622,924
Agriculture	5,676
Total depreciation expense	$ 746,286

Business-type activities:	
N.C. State Lottery	$ 457
EPA Revolving Loan	18
N.C. Turnpike Authority	1,870
Regulatory programs	1,048
North Carolina State Fair	620
Other business-type activities	733
Total depreciation expense	$ 4,746

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, 2012, was as follows (dollars in thousands):

University of North Carolina System:	**Balance July 1, 2011 (as restated)**	**Additions**	**Deductions**	**Balance June 30, 2012**
Capital Assets, nondepreciable:				
Land and permanent easements	$ 339,570	$ 31,142	$ (11,754)	$ 358,958
Art, literature, and other artifacts	143,425	3,729	(239)	146,915
Construction in progress	1,068,463	755,175	(811,382)	1,012,256
Computer software in development	17,081	14,903	(1,718)	30,266
Other intangible assets	1,000	—	—	1,000
Total capital assets-nondepreciable	1,569,539	804,949	(825,093)	1,549,395
Capital Assets, depreciable:				
Buildings	9,428,087	936,304	(45,842)	10,318,549
Machinery and equipment	1,861,120	180,108	(65,481)	1,975,747
Art, literature, and other artifacts	202	—	—	202
General infrastructure	1,569,451	83,626	(980)	1,652,097
Computer software	100,879	7,718	(2,009)	106,588
Total capital assets-depreciable	12,959,739	1,207,756	(114,312)	14,053,183
Less accumulated depreciation for:				
Buildings	(2,545,459)	(243,206)	35,380	(2,753,285)
Machinery and equipment	(1,121,235)	(117,310)	55,328	(1,183,217)
Art, literature, and other artifacts	(100)	(18)	—	(118)
General infrastructure	(462,743)	(38,934)	911	(500,766)
Computer software	(33,111)	(9,515)	1,374	(41,252)
Total accumulated depreciation	(4,162,648)	(408,983)	92,993	(4,478,638)
Total capital assets-depreciable, net	8,797,091	798,773	(21,319)	9,574,545
University of North Carolina System capital assets, net	$ 10,366,630	$ 1,603,722	$ (846,412)	$ 11,123,940

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2012, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of $14.837 million and net depreciable capital assets of $111.215 million.

NOTES TO THE FINANCIAL STATEMENTS

Community Colleges:

	Balance July 1, 2011 (as restated)	Additions	Deductions	Balance June 30, 2012
Capital Assets, nondepreciable:				
Land and permanent easements	$ 158,840	$ 4,044	$ (6)	$ 162,878
Art, literature, and other artifacts	350	10	—	360
Construction in progress	132,121	149,328	(106,510)	174,939
Total capital assets-nondepreciable	291,311	153,382	(106,516)	338,177
Capital Assets, depreciable:				
Buildings	2,273,917	115,023	(2,628)	2,386,312
Machinery and equipment	317,801	34,821	(18,107)	334,515
Art, literature, and other artifacts	535	—	—	535
General infrastructure	148,659	5,447	(20)	154,086
Computer software	1,207	—	—	1,207
Total capital assets-depreciable	2,742,119	155,291	(20,755)	2,876,655
Less accumulated depreciation for:				
Buildings	(562,690)	(47,755)	1,547	(608,898)
Machinery and equipment	(126,105)	(19,095)	13,907	(131,293)
Art, literature, and other artifacts	(82)	(16)	—	(98)
General infrastructure	(35,485)	(3,763)	240	(39,008)
Computer software	(373)	(120)	—	(493)
Total accumulated depreciation	(724,735)	(70,749)	15,694	(779,790)
Total capital assets-depreciable, net	2,017,384	84,542	(5,061)	2,096,865
Community Colleges capital assets, net	$ 2,308,695	$ 237,924	$ (111,577)	$ 2,435,042

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2012, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of $3.597 million and net depreciable capital assets of $6.745 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, 2012 was $132.65 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, 2012, the amount of outstanding commercial paper was $50 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 was due and paid upon the maturity date of March 8, 2012. At June 30, 2012, there was no outstanding balance.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2012, are as follows (dollars in thousands):

	Balance July 1, 2011	Draws	Repayments	Balance June 30, 2012
University of North Carolina System				
Commercial Paper Program	$ 83,650	$ 99,000	$ —	$ 182,650
Line of Credit	140	—	(140)	—

NOTE 7: DERIVATIVE INSTRUMENTS

A. Summary Information

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

	Changes in Fair Value		Fair Value at June 30, 2012		
Type	Classification	Increase (Decrease)	Classification	Asset (Liability)	Notional
Primary Government					
Governmental Activities					
Investment derivatives:					
Swaptions	Unrestricted investment earnings	$ (77,057)	Accounts payable	$ (149,050)	$ 675,000
Basis swaps	Unrestricted investment earnings	4,142	Investments	23,934	675,000
Fiduciary Funds					
Investment derivatives:					
U.S. dollar equity futures	Investment earnings	$ 50,544	State Treasurer Investment Pool	$ 50,544	$ 1,124,447
Foreign equity futures	Investment earnings	20,365	State Treasurer Investment Pool	20,365	(a)
Commodity futures	Investment earnings	(3,046)	State Treasurer Investment Pool	(3,046)	(b)
Component Units					
University of North Carolina System					
Cash flow hedges:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Deferred outflow of resources	$ (111,444)	Hedging derivatives liability	$ (122,895)	$ 250,000
N.C. State University	Deferred outflow of resources	(8,549)	Hedging derivatives liability	(17,565)	74,655
N.C. Central University	Deferred outflow of resources	(791)	Hedging derivatives liability	(1,652)	7,660
UNC Hospitals	Deferred outflow of resources	(11,011)	Hedging derivatives liability	(26,832)	130,785
Total		$ (131,795)		$ (168,944)	$ 463,100
Investment derivatives:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Operating grants and contributions	$ (1,505)	Accounts payable	$ (5,586)	$ 19,370
N.C. Housing Finance Agency					
Cash flow hedges:					
Pay-fixed interest rate swaps:	Deferred outflow of resources	$ (3,083)	Hedging derivatives liability	$ (8,141)	$ 64,495

(a) Notional amounts are as follows: 9.9 billion yen, 147.77 million euros, and 87.15 million pounds sterling.

(b) Notional amounts are as follows: 1.45 million U.S. barrels of crude oil; 28.73 metric tons of aluminum; 13.57 million U.S. gallons of heating oil; 7.12 million bushels of wheat; and 10.12 million bushels of corn.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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.

B. Hedging Derivative Instruments

Component Units

University of North Carolina System

The following table displays the objectives and terms of the University of North Carolina System's hedging derivative instruments outstanding at June 30, 2012 (dollars in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
UNC at Chapel Hill					
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2001B&C, 2002A, and 2012A&B Series bonds	$ 100,000	12/1/07	12/1/36	Pay 3.314% ; receive 67% of one month LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2001B&C, 2002A, and 2012A&B Series bonds	150,000	12/1/11	12/1/41	Pay 4.375% ; receive 67% of one month LIBOR
N.C. State University					
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2003B Series bonds	24,655	6/20/03	10/1/27	Pay 3.54% ; receive 75% of one month LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2008A Series bonds	50,000	9/1/08	10/1/26	Pay 3.862% ; receive SIFMA Swap index
N.C. Central University					
Pay-fixed interest rate swap	Hedge changes in cash flows on Housing Facilities Revenue 2003A Series bonds	7,660	4/1/04	10/1/24	Pay 3.52% ; receive 70% of one month LIBOR
UNC Hospitals					
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2003A&B Series bonds	93,490	2/13/03	2/1/29	Pay 3.48% ; receive 67% of one month LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2009A Series bonds	37,295	2/12/09	2/1/24	Pay 3.606% ; receive 67% of one month LIBOR

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

UNC at Chapel Hill

Interest rate risk. UNC at Chapel Hill (University) is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2012. The fair values are calculated as of June 30, 2012. As rates rise, the value of the swaps will increase, and as rates fall the fair value of the swaps will decrease.

Basis risk. The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

Termination risk. The swap agreements use the International Swaps and Derivatives Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

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

N.C. State University

Interest rate risk. N.C. State University (University) is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2012. 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, 2012. Both of the swaps outstanding have termination dates greater than 14 years. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than the Securities Industry and Financial Markets Association Swap Index (SIFMA). Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. The current outstanding swaps and the related bonds reset rates weekly and pay monthly. As of June 30, 2012, the SIFMA rate was 0.18%, whereas 75% of LIBOR was 0.18%.

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, 2012. 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 University to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The University receives 70% of a one-month LIBOR from the counterparty and pays a floating rate to its bondholders set by the Remarketing Agent. The University incurs basis risks when its bond trade at a yield above 70% of LIBOR. If the relationship of the University's bonds trade to a percentage of LIBOR greater than 70%, the University will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The swap contract uses the ISDA Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. As of June 30, 2012, no termination events had occurred and there was no known date when the derivative instrument may be terminated. The swap agreement is terminated if the University or the counterparty fails to perform under the contract. There were no out of the ordinary termination events as of June 30, 2012.

Rollover risk. The University 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

Interest rate risk. UNC Hospitals (Hospitals) is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2012. 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, 2012.

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

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

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, 2012 (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	$ 14,580	5/8/03	7/1/32	Pay 3.508% ; receive 63% of one month LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 16C Series bonds	14,900	9/16/03	7/1/32	Pay 3.81% ; receive 63% of one month LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 17C Series bonds	17,780	12/11/03	7/1/32	Pay 3.725% ; receive 63% of one month LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 18C Series bonds	17,235	4/20/04	1/1/35	Pay 3.251% ; receive 63% of one month 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. The hedging derivative instruments of the Agency do not increase the government's exposure to interest rate risk.

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 24.96 basis points for Series 15C, 29.51 basis points for Series 16C and 18C and 29.34 basis points for Series 17C 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 15 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	Moody's
Basis swap, G.O. Series 2003A, 2003B, and 2004A	$ 12,072	Counterparty 1	AA- / AA-	Aa3
Basis swap, G.O. Series 2003A, 2003B, and 2004A	7,243	Counterparty 2	A / A	A3
Basis swap, G.O. Series 2003A, 2003B, and 2004A	4,619	Counterparty 3	A+ / A+	Aa3
Total *	$ 23,934			
Less: Netting arrangement liability — Swaption	(74,524)	Counterparty 1		
Less: Netting arrangement liability — Swaption	(44,716)	Counterparty 2		
Less: Netting arrangement liability — Swaption	(29,810)	Counterparty 3		
Net exposure to credit risk	$ (125,116)			

* 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 the 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, 2012, SIFMA was 0.18% and 70% of LIBOR was 0.17%.

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

Component Units

University of North Carolina System

UNC at Chapel Hill

Interest rate risk. UNC at Chapel Hill (University) is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swap, the swap has a negative fair value as of June 30, 2012. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2012. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap will decrease. The University pays 5.24% and receives SIFMA. On June 30, 2012, SIFMA was 0.18%. The interest rate swap has a notional amount of $19.37 million and matures November 1, 2025.

D. Synthetic Guaranteed Investment Contracts

Primary Government

In the Supplemental Retirement Income Plan of North Carolina, 401(k) Plan, there are synthetic guaranteed investment contracts (SGICs) within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There are two SGICs with The Prudential Insurance Company of America (Prudential) and one SGIC with United of Omaha Life Insurance Company (United of Omaha) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 3.96%, 2.44% and 3.12%, respectively. The fair value of the securities covered by the contracts as of December 31, 2011, is $911 million and the contract value is $872 million. The contracts are unrated and have a maturity of less than one year.

In the North Carolina Public Employee Deferred Compensation Plan, 457 Plan, there are SGICs within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There are two SGICs with Prudential and one SGIC with United of Omaha which are all fully benefit responsive. The SGICs provided an average credit rating yield of 4.09%, 2.37% and 3.08%, respectively. The fair value of the securities covered by the contracts as of December 31, 2011, is $201 million and the contract value is $192 million. The contracts are unrated and have a maturity of less than one year.

Both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan have entered into wrap contracts with Prudential and United of Omaha to assure that the crediting rate on participant investments will not be less than zero. However, the wrap contracts with Prudential and United of Omaha 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, 2012, was as follows (dollars in thousands):

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	$4,846,205	$ —	$ (375,705)	$ 4,470,500	$ 387,295
Special indebtedness:					
Lease-purchase revenue bonds	205,045	—	(174,130)	30,915	10,000
Certificates of participation	824,860	—	(266,965)	557,895	49,395
Limited obligation bonds	1,060,745	767,350	(33,005)	1,795,090	51,350
GARVEE bonds	373,080	179,540	(40,535)	512,085	57,265
Less deferred amounts:					
On refunding	(133,228)	(37,892)	30,012	(141,108)	—
Add issuance premium	447,725	131,892	(94,002)	485,615	—
Total bonds and similar debt payable	7,624,432	1,040,890	(954,330)	7,710,992	555,305
Notes payable	25,038	15,801	(5,148)	35,691	4,926
Capital leases payable	22,612	1,008	(2,338)	21,282	2,108
Compensated absences	412,527	264,355	(267,501)	409,381	33,499
Net pension obligation	2,952	31,416	(31,602)	2,766	—
Workers' compensation	112,687	81,215	(57,170)	136,732	2,461
Deferred death benefit payable	370	140	—	510	270
Pollution remediation payable	6,864	—	(379)	6,485	332
Court judgment payable	731,703	—	—	731,703	—
Governmental activity long-term liabilities	$8,939,185	$1,434,825	$ (1,318,468)	$ 9,055,542	$ 598,901
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 856,678	$ 224,505	$ —	$ 1,081,183	$ 22,725
GARVEE bonds	—	145,535	—	145,535	—
Less deferred amounts:					
For issuance discounts	(2,128)	—	116	(2,012)	—
Add issuance premium	—	33,153	(1,646)	31,507	—
Total bonds payable	854,550	403,193	(1,530)	1,256,213	22,725
Notes payable	269,030	18,963	(1,175)	286,818	185
Annuity and life income payable	38,620	13,548	(3,001)	49,167	3,750
Federal unemployment account advances	2,536,169	1,322,993	(1,293,640)	2,565,522	1,257,000
Compensated absences	6,708	4,407	(4,071)	7,044	516
Business-type activity long-term liabilities	$3,705,077	$1,763,104	$ (1,303,417)	$ 4,164,764	$1,284,176

For governmental activities, the compensated absences, net pension obligation, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of $5.949 million and capital leases payable of $1.257 million.

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, 2012, was as follows (dollars in thousands):

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012	Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$3,054,125	$ 348,241	$ (213,155)	$ 3,189,211	$ 158,410
Certificates of participation	26,900	—	(2,230)	24,670	2,335
Less deferred amounts:					
For issuance discounts	(24,946)	(155)	4,686	(20,415)	—
On refunding	(29,590)	(5,031)	3,338	(31,283)	—
Add issuance premium	66,637	24,648	(6,758)	84,527	—
Total bonds payable	3,093,126	367,703	(214,119)	3,246,710	160,745
Notes payable	294,957	122,999	(134,197)	283,759	5,777
Capital leases payable	74,140	42,790	(19,238)	97,692	10,530
Arbitrage rebate payable	153	100	(128)	125	—
Annuity and life income payable	19,374	4,025	(432)	22,967	1,712
Compensated absences	338,379	249,535	(243,540)	344,374	40,292
Pollution remediation payable	55	10	(55)	10	—
Liability insurance trust fund payable	51,367	635	(3,117)	48,885	10,237
Total long-term liabilities	$3,871,551	$ 787,797	$ (614,826)	$ 4,044,522	$ 229,293

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2012, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $404.667 million, of which $10.843 million was due within one year and $393.824 million was due in more than one year.

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	$1,333,130	$ 210,160	$ (337,600)	$ 1,205,690	$ 34,835
Less deferred amounts:					
For issuance discounts	(17)	—	4	(13)	—
Add issuance premium	6,520	1,166	(1,815)	5,871	—
Total bonds payable	1,339,633	211,326	(339,411)	1,211,548	34,835
Arbitrage rebate payable	418	1,676	(140)	1,954	1
Compensated absences	1,018	563	(364)	1,217	127
Total long-term liabilities	$1,341,069	$ 213,565	$ (339,915)	$ 1,214,719	$ 34,963

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$1,888,868	$ —	$ (198,965)	$ 1,689,903	$ 146,939
Less deferred amounts:					
For issuance discounts	(37,102)	—	2,111	(34,991)	—
Total bonds payable	1,851,766	—	(196,854)	1,654,912	146,939
Notes payable	1,409,477	—	(184,681)	1,224,796	185,000
Arbitrage rebate payable	—	—	—	—	—
Compensated absences	342	—	(6)	336	24
Total long-term liabilities	$3,261,585	$ —	$ (381,541)	$ 2,880,044	$ 331,963

B. Bonds, Special Indebtedness, and Notes Payable

Bonds, special indebtedness, and notes payable at June 30, 2012 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Fiscal Year	Original Borrowing	Outstanding Balance
Primary Government:				
Governmental activities				
General obligation bonds	0.12% - 5.50%*	2030	$ 7,271,330	$ 4,470,500
Special indebtedness:				
Lease-purchase revenue bonds	3.50% - 5.25%	2025	272,045	30,915
Certificates of participation	4.00% - 5.25%	2028	1,064,840	557,895
Limited obligation bonds	2.25% - 5.25%	2032	1,867,350	1,795,090
GARVEE Bonds	2.00% - 5.21%	2021	709,625	512,085
Notes payable	1.95% - 3.86%	2028	51,041	35,691
Business-type activities				
Revenue bonds**	2.48% - 7.10%	2042	$ 1,081,183	$ 1,081,183
GARVEE Bonds	2.10%	2023	145,535	145,535
Notes payable	2.18% - 5.00%	2048	286,981	286,818
Component Units:				
University of North Carolina System				
Revenue bonds**	0.06% - 10.00%*	2043	$ 3,622,053	$ 3,189,211
Certificates of participation	3.38% - 5.00%	2036	38,745	24,670
Notes payable**	1.08% - 6.75%*	2034	288,528	283,759
North Carolina Housing Finance Agency				
Revenue bonds	0.30% - 6.40%*	2042	$ 3,934,401	$ 1,205,690
State Education Assistance Authority				
Revenue bonds	0.58% - 4.00%*	2034	$ 3,289,000	$ 1,689,903
Notes payable	0.08%*	2014	1,577,000	1,224,796

* For variable rate debt, interest rates in effect at June 30, 2012 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 $447.56 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, 2012 totaled $795.1 million as follows: university projects $272 million, psychiatric hospitals $110.3 million, correctional facilities $37.4 million, guaranteed energy savings contracts $339.4 million, State and other projects $30.4 million, and repairs and renovations $5.6 million. At June 30, 2012, 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), J.P. Morgan Securities, Inc. (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-Thueringen 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, 2012, 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%.

On August 15, 2012, the Bank delivered notice that it plans to exercise its right to designate December 31, 2012 as an optional termination date under its current agreement. The State plans to pursue and procure liquidity from another qualified provider(s) prior to the termination of the current Standby Bond Purchase Agreements.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Each line of credit agreement expires on September 21, 2014 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University’s long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody’s. At June 30, 2012, 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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2012, 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, 2012, the remarketed rate for the bonds was 0.18%.

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, 2012, 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 $43.185 million of outstanding demand bonds was “put” and not resold, the University would be required to pay $15 million a year for three years under this agreement assuming a 3.25% interest rate.

General Revenue Bonds, Series 2008A

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

NOTES TO THE FINANCIAL STATEMENTS

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Citigroup Global Markets, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and 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 0.3% 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, 2012, 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 $66.61 million of outstanding 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.

Subsequent to the reporting period, on July 6, 2012, the University substituted the Liquidity Facility for the 2008A bonds, executing a mandatory tender and remarketing of the bonds under the new Liquidity Facility. Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wells Fargo Bank, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.39% of the available commitment, payable quarterly in arrears, beginning on October 1, 2012 and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the base rate (the greater of the bank prime commercial lending rate plus 1%, the federal funds rate plus 2%, or 7%) for 180 days. Beginning on day 181, (the amortization date) the Bank Bonds become Term Bonds and bear interest at the base rate plus 1%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. The initial Liquidity Facility expiration date is July 6, 2015, unless otherwise extended based on the terms of the Agreement.

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

University of North Carolina Hospitals at Chapel Hill

With regard to the following demand bonds, the 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, U.S. Bank, National Association. The Hospitals' Remarketing Agents, Merrill Lynch; Pierce, Fenner & Smith Inc. (Series 2001A); and Banc of America Securities, LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-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 fiscal year, the percentage was 0.58% with the long-term agreement that became effective on July 11, 2005.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase to and including the 60th day thereafter and while they are Bank Bonds, bear interest at the formula rate (base rate equal to the higher of the prime rate plus 1% for such day or the sum of 1% plus the federal funds rate) and from and including the 61st day following the Purchase Date and thereafter bear interest at the higher of the Formula Rate or 7%, subject to a maximum rate as permitted by law; provided however, that at no time shall the Base Rate be less than the applicable rate of interest on the bonds which are not Bank Bonds. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2012, 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 $96.8 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $25.18 million, $23.27 million, $22.92 million, $21.56 million, and $20.21 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a Base Rate of 4.25% (prime rate plus 1%) for the first 60 days and a maximum rate of 7% thereafter.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2013 or October 11, 2015 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 the Liquidity Provider.

Revenue Refunding Bonds, Series 2003A and Series 2003B

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

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, U.S. Bank National Association. 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. is payable quarterly in arrears, on the first business day of each November, February, May, and August. The commitment rate is equal to 0.51% per annum effective July 1, 2011 until July 1, 2013. The commitment rate remains in effect over the life of the Agreement so long as the rating assigned to parity debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to parity debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the commitment rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.71%
A- or lower	A3 or lower	0.91%

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the prime rate plus 1.5% or the federal funds rate plus 3%, the base rate, for the first 90 days and then the base rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the base rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2012, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are “put” within the earlier of the termination date and 367 days of the “put” date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding $60.81 million of demand bonds was “put” and not resold, the Hospitals would be required to pay $23.12 million, $22.31 million, and $21.14 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 4.75% (Prime plus 1.5%).

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.5% for fiscal year 2012. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November thereafter until July 31, 2013. The commitment fee remains in effect over the life of the Agreement so long as the rating assigned to parity debt by S&P and Moody's is A+/A1 or higher. If the rating assigned to parity debt by either S&P or Moody's is downgraded below A+ or A1, respectively, the adjusted commitment rate (lowest rating to be used) assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.65%
A-	A3	0.8%
BBB+	Baa1	1%
BBB	Baa2	1.25%
BBB-	Baa3	1.55%
Below Investment Grade	Below Investment Grade	2.55%

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate equal to the greater of the prime rate plus 1%; the federal funds rate plus 2% or 7%, subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. At June 30, 2012, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem Bank Bonds in 11 equal quarterly installments of principal, on the first business day of each February, May, August, and November beginning on the first of such dates that occurs at least 90 days after the purchase date of such Bank Bonds. The Hospitals shall pay interest of the base rate plus 2% in arrears on each date that would be an interest payment date for the Series 2003B Bonds, beginning on the first interest payment date that occurs after the loan date. If the take out agreement were to be exercised because the entire outstanding $32.69 million of demand bonds was “put” and not resold, the Hospitals would be required to pay $10.96 million, $13.78 million, and $12.64 million in years one, two and three respectively following the purchase date of the Bank Bonds assuming a base rate of 7%.

Revenue Refunding Bonds-Series 2009A

On February 12, 2009, the Hospitals issued series 2009A tax-exempt variable rate demand bonds in the amount of $44.29 million that have a final maturity date of February 1, 2024. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2010. The proceeds were used to advance refund $43.51 million of the Series 1999 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

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

Under a separate liquidity agreement with the Trustee, UNC Hospitals has established itself as Liquidity Facility for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. Upon receipt of any notice from the Remarketing Agent that there is a projected funding amount on the business day prior to each purchase date or mandatory purchase date, and upon receipt of written demand for payment from the Tender Agent by noon on each purchase date or mandatory purchase date, UNC Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the actual funding amount, which shall be equal to the purchase price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the purchase date 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, 2012 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

Primary Government

	Governmental Activities					
Fiscal Year	General Obligation Bonds		Certificates of Participation		Lease-Purchase Revenue Bonds	
Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 387,295	$ 199,420	$ 49,395	$ 27,027	$ 10,000	$ 1,217
2014	384,260	181,218	49,630	24,653	10,000	746
2015	387,560	163,295	42,390	22,262	2,125	461
2016	388,010	145,109	37,350	20,152	2,000	361
2017	386,295	126,032	27,415	18,285	650	298
2018-2022	1,664,695	392,560	145,525	70,468	500	1,348
2023-2027	782,730	100,583	185,990	29,314	5,640	532
2028-2032	89,655	7,811	20,200	827	—	—
Total	$ 4,470,500	$ 1,316,028	$ 557,895	$ 212,988	$ 30,915	$ 4,963

	Governmental Activities					
Fiscal Year	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 51,350	$ 85,805	$ 57,265	$ 23,288	$ 4,926	$ 636
2014	53,360	83,442	59,545	21,007	2,972	524
2015	71,405	80,629	62,040	18,510	3,135	1,547
2016	79,730	77,196	64,780	15,771	3,642	716
2017	94,320	73,133	67,605	12,944	3,870	593
2018-2022	565,130	289,188	200,850	20,546	9,170	1,542
2023-2027	515,025	153,054	—	—	7,361	583
2028-2032	364,770	42,641	—	—	615	6
Total	$ 1,795,090	$ 885,088	$ 512,085	$ 112,066	$ 35,691	$ 6,147

The general obligation bonds include $355 million of variable rate debt. For this debt, the variable interest rates change weekly based on the market for seven day paper.

NOTES TO THE FINANCIAL STATEMENTS

	Business-type Activities					
Fiscal Year	Revenue Bonds		GARVEE Bonds		Notes Payable	
Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 22,725	$ 57,302	$ —	$ 5,773	$ 185	$ 115
2014	19,150	56,812	—	5,773	190	109
2015	19,720	56,138	—	5,773	195	4,931
2016	8,200	55,555	—	5,773	203	11,011
2017	11,960	55,178	—	5,773	174	12,261
2018-2022	118,465	263,700	91,965	26,421	900	61,172
2023-2027	191,780	226,114	53,570	2,143	5,367	60,907
2028-2032	280,856	167,278	—	—	26,516	57,010
2033-2037	234,247	232,104	—	—	55,897	50,136
2038-2042	174,080	39,794	—	—	139,364	33,615
2043-2047	—	—	—	—	57,827	3,256
Total	$ 1,081,183	$ 1,209,975	$ 145,535	$ 57,429	$ 286,818	$ 294,523

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
2013	$ 101,267	$ 128,597	$ 9,663	$ 2,335	$ 1,086	$ 5,777	$ 9,900
2014	106,353	125,255	9,369	2,420	999	38,981	9,546
2015	108,412	121,845	9,091	585	903	29,943	8,701
2016	108,086	118,280	8,692	610	879	8,919	8,053
2017	112,075	114,651	8,098	635	855	30,928	7,566
2018-2022	583,251	515,788	31,107	3,590	3,857	105,909	29,003
2023-2027	626,627	409,793	12,580	4,450	2,988	46,060	9,080
2028-2032	600,430	288,565	637	5,600	1,843	17,242	852
2033-2037	738,490	116,489	—	4,445	450	—	—
2038-2042	102,945	12,409	—	—	—	—	—
2043-2047	1,275	340	—	—	—	—	—
Total	$ 3,189,211	$ 1,952,012	$ 89,237	$ 24,670	$ 13,860	$ 283,759	$ 82,701

	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
2013	$ 34,835	$ 51,758	$ 1,952	$ 146,939	$ 24,420	$ 185,000	$ 9,024
2014	36,050	50,413	1,908	137,483	23,338	1,039,796	2,244
2015	37,670	48,989	1,867	140,403	22,073	—	—
2016	35,630	47,519	1,828	138,921	20,654	—	—
2017	36,435	46,073	1,790	132,372	19,211	—	—
2018-2022	190,940	206,786	8,023	476,539	75,971	—	—
2023-2027	219,645	162,736	6,310	216,149	53,831	—	—
2028-2032	275,135	107,792	3,228	95,295	43,342	—	—
2033-2037	252,090	47,921	402	205,802	7,446	—	—
2038-2042	87,260	5,459	—	—	—	—	—
Total	$ 1,205,690	$ 775,446	$ 27,308	$ 1,689,903	$ 290,286	$ 1,224,796	$ 11,268

For revenue bonds of the University of North Carolina System, the fiscal year 2013 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 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; and $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 has been 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 June 30, 2012 the outstanding balance for the defeased bonds was $382.5 million.

Component Units

University of North Carolina System

North Carolina State University

On May 9, 2012, the University issued $16.27 million in North Carolina State University General Revenue Refunding Bonds, Series 2012 with an average coupon of 4.48%. The bonds were issued to advance refund $17.29 million of outstanding North Carolina State University General Revenue Bonds, Series 2003A bonds with an average interest rate of 4.93%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by $1.68 million over the next seven years and resulted in an economic loss of $100 thousand. At June 30, 2012, the outstanding balance was $17.29 million for the defeased North Carolina State University General Revenue Bonds, Series 2003A bonds.

University of North Carolina at Wilmington

On April 27, 2012, the University issued $11.76 million in General Revenue Refunding Bonds, Series 2012 refunding bonds with an average interest rate of 2.84%. The bonds were issued to advance refund $11.37 million of outstanding Series 2003A bonds with an average interest rate of 4.59%. 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. This advance refunding was undertaken to reduce total debt service payments by $2.21 million over the next 15 years and resulted in an economic gain of $1.78 million. At June 30, 2012, the outstanding balance was $11.37 million for the defeased Series 2003A bonds.

Appalachian State University

On May 17, 2012, the University issued $10.32 million and $12.36 million in Appalachian State University General Revenue Refunding Bonds, Series 2012 with average interest rates of 3.8% and 3.98%, respectively. The bonds were issued to advance refund $10.66 million of outstanding Appalachian State University General Revenue Bonds, Series 2003A with an average interest rate of 4.46% and $11.84 million of outstanding Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005 with an average interest rate of 5.01%. 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. This advance refunding was undertaken to reduce total debt service payments by $1.91 million over the next 16 years and resulted in an economic gain of $1.78 million. At June 30, 2012, the outstanding balance was $10.66 million for the defeased Appalachian State University General Revenue Bonds, Series 2003A and $11.84 million for the defeased Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net assets. At June 30, 2012, the outstanding balance of prior year defeased bonds was $672.05 million for the primary government and $61.8 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 2012, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of $1.32 billion to continue financing the operating deficit in the State's unemployment compensation fund. Proceeds from the advances were used to pay state unemployment benefits. The total amount collected from unemployment tax contributions and additional federal unemployment taxes used to pay down the principal on the repayable advances was $1.29 billion. At year-end, the outstanding balance of the FUA advances was $2.566 billion. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. Currently, the repayable advances are payable from the unemployment tax contributions and additional federal unemployment taxes imposed on the State's employers for calendar year 2011. Both will be used specifically for paying down the debt until it is settled. Meanwhile, the State unemployment benefits will continue to be paid from the repayable advances.

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 30 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 $6.485 million, of which $5.592 million was for leaking underground fuel tanks at DOT and $893 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 $10 thousand for underground storage tank removals at a campus building. The amount of the liability was calculated from the estimated costs of the removal.

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, 2012, total operating lease expenditures were $75.25 million for Primary Government, $56.72 million for the University of North Carolina System, and $7.18 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, 2012 are as follows (dollars in thousands):

	Operating Leases				**Capital Leases**		
	Primary Government		Component Units		Primary Government	Component Units	
Fiscal Year	Governmental Activities	Business type Activities	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2013	$ 45,628	$ 1,389	$ 40,844	$ 5,233	$ 2,886	$ 11,225	$ 2,668
2014	34,578	1,263	32,213	3,921	2,168	10,626	2,354
2015	27,387	1,161	27,694	2,975	2,131	9,626	2,316
2016	22,320	1,139	23,331	2,241	2,065	8,008	2,200
2017	16,348	272	21,127	1,750	1,900	6,326	2,200
2018 - 2022	26,701	655	83,457	6,565	9,627	25,102	11,001
2023 - 2027	8,087	—	54,054	2,187	5,703	24,896	11,001
2028 - 2032	8,082	—	2,424	990	—	23,103	6,417
2033 - 2037	8,082	—	83	138	—	21,620	—
2038 - 2042	8,082	—	50	—	—	8,075	—
2043 - 2047	8,082	—	24	—	—	—	—
2048 - 2052	8,082	—	24	—	—	—	—
2053 - 2057	—	—	24	—	—	—	—
2058 - 2062	—	—	24	—	—	—	—
2063 - Beyond	—	—	43	—	—	—	—
Total Future Minimum Lease Payments.	$ 221,459	$ 5,879	$ 285,416	$ 26,000	26,480	148,607	40,157
Less: Amounts Representing Interest					(5,198)	(50,915)	(17,082)
Present Value of Future Minimum Lease Payments					$ 21,282	$ 97,692	$ 23,075

At June 30, 2012, 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	$ 103,907	$ 27,338
Machinery and Equipment	3,960	17,720	778
Other	—	3,035	—
Total Capital Assets	$ 30,011	$ 124,662	$ 28,116

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

NOTE 10: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $79.87 million due to fiduciary funds is composed of $26.779 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as $53.091 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, 2012, consisted of the following (dollars in thousands):

	Due From Other Funds				
	General Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	Total
Due To Other Funds					
General Fund	$ —	$ 4,227	$ 5,246	$ 12,380	$ 21,853
Highway Fund	—	1,993	—	2,117	4,110
Other Governmental Funds	2,291	48	—	512	2,851
Unemployment Compensation Fund	260	—	—	—	260
EPA Revolving Loan Fund	—	—	—	27	27
NC State Lottery Fund	10,103	—	—	72	10,175
NC Turnpike Authority	—	—	—	1	1
Nonmajor Enterprise Funds	—	5	—	79	84
Internal Service Funds	6	3	—	919	928
Total	$12,660	$ 6,276	$ 5,246	$ 16,107	$ 40,289

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 $22.746 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, 2012 consisted of the following (dollars in thousands):

Transfers Out	Transfers In: General Fund	Highway Fund	Other Governmental Funds	EPA Revolving Loan Fund	NC Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	Total
General Fund	$ —	$ 3,387	$ 94,332	$ 7,119	$ —	$ 5,144	$ —	$ 109,982
Highway Fund	267,834	—	1,678	—	—	—	1,347	270,859
Highway Trust Fund	77,083	35,316	—	—	69,913	—	—	182,312
Other Governmental Funds	137,719	1,601	12,180	—	—	316	33	151,849
Unemployment Compensation Fund	18,616	—	—	—	—	—	—	18,616
EPA Revolving Loan Fund	523	—	—	—	—	—	—	523
NC State Lottery Fund	459,469	—	1,000	—	—	—	—	460,469
NC Turnpike Authority	151	2,576	—	—	—	—	—	2,727
Other Enterprise Funds	1,189	—	708	—	—	—	—	1,897
Internal Service Funds	55	—	—	—	—	—	429	484
Total	$ 962,639	$ 42,880	$ 109,898	$ 7,119	$ 69,913	$ 5,460	$ 1,809	$ 1,199,718

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 $76.721 million.

House Bill 2436 [Session Law 2008-107], amends the law that created the Highway Trust Fund. The amendment directs that funds are to be transferred to the N.C. Turnpike Authority (NCTA) to pay debt service or related financing expenses on revenue bonds or notes issued for the following toll road construction projects: Triangle Expressway, Monroe Connector/Bypass, Mid-Currituck Bridge, and Garden Parkway. Debt has been issued for the Triangle Expressway and the Monroe Connector/Bypass, and $49 million was transferred to the NCTA during fiscal year 2012.

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 $459.469 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, 2012 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	$ 80,054	$ 92,611	$ —	$ 33,792	$ 206,457
Permanent Corpus	—	—	—	93,612	93,612
Restricted for:					
General government	5,528	—	—	109,965	115,493
Primary and secondary education	2,957	—	—	—	2,957
Higher education	3,790	—	—	470,297	474,087
Health and human services	22,834	—	—	84,521	107,355
Economic development	37,608	—	—	18,327	55,935
Environment and natural resources	—	—	—	56,232	56,232
Public safety, corrections, and regulation	42,971	—	—	31,558	74,529
Transportation	—	82,212	—	—	82,212
Agriculture	—	—	—	241	241
Committed to:					
General government	154,230	—	—	66,640	220,870
Primary and secondary education	344,970	—	—	—	344,970
Higher education	27,158	—	—	231	27,389
Health and human services	36,003	—	—	12,407	48,410
Economic development	96,886	—	—	138	97,024
Environment and natural resources	110,379	—	—	335,228	445,607
Public safety, corrections, and regulation	23,381	—	—	129,728	153,109
Transportation	—	454,250	381,729	3,126	839,105
Agriculture	6,682	—	—	20,717	27,399
Repairs and renovations	89,320	—	—	—	89,320
Assigned to:					
General government	—	—	—	6	6
Public safety, corrections, and regulation	—	—	—	490	490
Unassigned	(62,303)	—	—	(1,311)	(63,614)
Total fund balance	$ 1,022,448	$ 629,073	$ 381,729	$ 1,465,945	$ 3,499,195

NOTE 12: RETIREMENT PLANS

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

A. Plan Descriptions and Contribution Information

1. *TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM*

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, Local Education Agencies (LEAs), and miscellaneous educational units not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and miscellaneous educational units. At June 30, 2012, the number of participating employers was 245 as shown below:

State of North Carolina	1
LEAs and miscellaneous units	166
Community Colleges	58
University of North Carolina System	19
Proprietary component units	1

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially based required employer contribution established by legislation. For the fiscal year ended June 30, 2012, the State made a statutory contribution of 7.44% of covered payroll. This was equal to the actuarially required contribution. 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, 2012, the State made a statutory contribution of 25.05% of covered payroll. This was equal to the actuarially required contribution. Benefit and contribution provisions are established by General Statutes 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

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

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

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, 2012, 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, 2012, there were 1,836 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, 2012, there were 85 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, 2012, 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, 2012, the Clerks remitted $1.023 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, 2012, the number of participating local governments was 895, as shown below:

Cities	427
Counties	100
Special districts	368

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. The annual required contribution (ARC) and actual contribution for all employers was 7.36% of covered payroll for law enforcement officers and 6.88% 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	171,786	562	278	11,520	4,071	84	51,700
Terminated employees entitled to benefits but not yet receiving them	110,686	55	83	159	4,993	2	44,350
Active plan members	317,906	566	170	39,734	5,567	100	121,638
Total	600,378	1,183	531	51,413	14,631	186	217,688
Date of valuation	*12-31-11*	*12-31-11*	*12-31-11*	*6-30-11*	*12-31-11*	*12-31-11*	*12-31-11*

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 the methods and significant assumptions used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 3. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 2011 (June 30, 2011, 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'	12/31/11	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
Consolidated Judicial	12/31/11	Projected unit credit	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
Legislative	12/31/11	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/11	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
North Carolina National Guard	12/31/11	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
Registers of Deeds'	12/31/11	Entry age	Level dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
Local Governmental Employees'	12/31/11	Frozen entry age	Level percentage	Various	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%

N/A-Not applicable

NOTES TO THE FINANCIAL STATEMENTS

Only minor technical adjustments for the respective systems were adopted and enacted by the North Carolina General Assembly effective July 1, 2011. 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, 2012, 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, 2009, the Legislative system was valued at December 31, 2010, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2010. 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, 2009, 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	$ 17,204	$ —	$ 14,389	$ 6,075
Interest on net pension obligation	31	(10)	183	(207)
Adjustment to annual required contribution	(58)	23	(333)	391
Annual pension cost	17,177	13	14,239	6,259
Less: Contributions made	(17,204)	—	(14,398)	(7,007)
Increase (decrease) in net pension obligation	(27)	13	(159)	(748)
Net pension (asset) obligation beginning of year	428	(136)	2,524	(2,861)
Net pension (asset) obligation end of year	$ 401	$ (123)	$ 2,365	$ (3,609)

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, 2010 through June 30, 2012 (dollars in thousands)

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard
Primary Government:					
2012	$ 242,963	$ 17,177	$ 13	$ 14,239	$ 6,259
2011	165,721	13,330	15	12,205	5,882
2010	120,935	10,405	32	10,035	5,716
Component units:					
Universities:					
2012	$ 152,850				
2011	95,125				
2010	66,935				
Community Colleges:					
2012	$ 60,670				
2011	40,001				
2010	27,444				
Proprietary Funds:					
2012	$ 1,041				
2011	998				
2010	722				
Total Primary Government and Component Units:					
2012	$ 457,524	$ 17,177	$ 13	$ 14,239	$ 6,259
2011	301,845	13,330	15	12,205	5,882
2010	216,036	10,405	32	10,035	5,716
Percentage of APC Contributed:					
2012		100%	0%	101%	112%
2011		77%	0%	83%	119%
2010		99%	0%	100%	123%
Percentage of ARC Contributed:					
2012	100%				
2011	100%				
2010	100%				
Net Pension (Asset) Obligation:					
2012		$ 401	$ (123)	$ 2,365	$ (3,609)
2011		428	(136)	2,524	(2,861)
2010		(2,634)	(151)	429	(1,736)

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'	12-31-11	$	58,125,011	$	61,846,697	$	3,721,686	94.0%	$	12,801,046	29.1%
Consolidated Judicial	12-31-11	$	460,647	$	512,643	$	51,996	89.9%	$	67,815	76.7%
Legislative	12-31-11	$	29,468	$	23,757	$	(5,711)	124.0%	$	3,679	(155.2)%
Firemen's and Rescue Squad Workers'	6-30-11	$	327,984	$	391,837	$	63,853	83.7%		N/A	N/A
North Carolina National Guard	12-31-11	$	91,108	$	129,500	$	38,392	70.4%		N/A	N/A
Registers of Deeds'	12-31-11	$	42,623	$	22,194	$	(20,429)	192.1%	$	5,875	(347.7)%
Local Governmental Employees'	12-31-11	$	19,326,359	$	19,373,800	$	47,441	99.8%	$	5,106,766	0.9%

F. Optional Retirement Plan

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in institutions of the UNC System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2012, the Plan had 13,636 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 $93.1 million for the fiscal year ended June 30, 2012. 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 $81.7 million for the fiscal year ended June 30, 2012.

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

G. Special Separation Allowance

The State provides a special separation allowance (SSA), a single-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11b) or General Statutes 143-166.30(a)(4) that were employed by State agencies and 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, 2012, the State and its component units paid $14.3 million for 874 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 audited statements for the year ended December 31, 2011 are presented in this financial report as a pension and other employee benefit trust fund. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 457 Plan. The 457 Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 325 North Salisbury Street, Raleigh, NC 27603-1385.

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

The 401(k) Plan is a defined contribution pension plan with direct administration delegated to a third party contractor. Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2011, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 401(k) Plan. The 401(k) Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 325 North Salisbury Street, Raleigh, NC 27603-1385.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive $.50 for each court cost assessed and collected under General Statute 7A-304, while $1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2011, 52 state agencies and component units along with 459 local governmental units outside our reporting entity contributed the required 5%. In addition, four state agencies and 436 local government employers contributed to the 401(k) Plan on a voluntary basis.

The 401(k) Plan also reported total member contributions of $277.222 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2011, amounted to $167 million for the State, $22.3 million for universities, and $3.6 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for $8.4 million, by universities for $1.1 million, and by the remaining component units and community colleges for $181 thousand. In addition, the State contributed $439 thousand for required court cost assessments.

NOTES TO THE FINANCIAL STATEMENTS

The 401(k) Plan and 457 Plan (Supplemental Retirement 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 Retirement Plans' investment risks are described in Note 3.

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

Effective July 1, 2011, the Department of State Treasurer was granted authority by the General Assembly to create a State sponsored 403(b) Plan entitled the North Carolina Public School Teachers' and Professional Educators' Investment Plan. While the state sponsored 403(b) Plan has not yet been implemented, it will be made available to all local school Boards of Education across the State. Each individual Board of Education will have the discretion to adopt the state sponsored 403(b) Plan.

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

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

INVESTMENTS /SECURITIES LENDING

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

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

B. Plan Descriptions and Contribution Information

1. *HEALTH BENEFITS*

Pursuant to North Carolina General Statutes, the State makes available the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of employees and former employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), miscellaneous educational units, and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2012, the number of participating employers was as shown below:

State of North Carolina	1
LEAs and miscellaneous units	166
Community Colleges	58
University of North Carolina System	19
Proprietary component units	1
Local governments	16

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. However, Fund assets may be used for reasonable expenses to administer the Fund, including costs to conduct required actuarial valuations of State-supported retired employees' health benefits. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year, the State and the other employers contributed the legislatively mandated 5.0% of active employee salaries. The Fund is reported as an employee benefit trust fund. The State's total payments are shown in the table on the following page. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

2. *Disability Income*

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

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

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

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2012, the State and the other employers made a statutory contribution of 0.52% of covered payroll. This was greater than the actuarially required contribution of 0.46%. 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.

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, 2010 through June 30, 2012
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2012	$ 163,282	$ 16,981
2011	164,713	17,480
2010	152,440	17,615
Component units:		
Universities:		
2012	$ 172,664	$ 17,957
2011	159,564	16,933
2010	140,450	16,230
Community Colleges:		
2012	$ 40,773	$ 4,240
2011	39,757	4,219
2010	34,593	3,997
Proprietary Funds:		
2012	$ 700	$ 73
2011	992	105
2010	910	105
Total Primary Government and Component Units:		
2012	$ 377,419	$ 39,251
2011	365,026	38,737
2010	328,393	37,947
Percentage Contributed:		
2012	100%	100%
2011	100%	100%
2010	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

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	179,120	n/a
Disabled members receiving long term disability benefits	n/a	6,754
Terminated employees entitled to benefits but not yet receiving them	30,241	-
Active plan members	341,500	324,290
Total	550,861	331,044
Date of valuation	*12/31/11*	*12/31/11*

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)	12/31/11	$ 729,095	$ 30,339,346	$ 29,610,251	2.4%	$ 14,851,954	199.4%
Disability Income (2)	12/31/11	$ 406,068	$ 511,417	$ 105,349	79.4%	$ 14,139,467	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. The Segal Company reported the adjusted, annualized payroll for postemployment health benefits.

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

C. Actuarial Methods and Assumptions

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The latest actuarial valuation for Retiree Health is dated December 31, 2011. The latest actuarial valuation for DIPNC is dated December 31, 2011. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

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

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

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

	Retiree Health Benefit	Disability Income
Valuation Date	12/31/11	12/31/11
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)	8% graded to 5% over 8 years	N/A
Projected Salary Increases (3)	Vary by group and years of service	4.3-9.1%

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

(2) For the Retiree Health Benefit, the investment rate of return includes an inflation and productivity rate of 3.50%. The healthcare cost trent rate includes only inflation of 3.00%. For the DIPNC, the investment rate of return includes an inflation rate of 3.00%.

(3) 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 30 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims since any salvage is adjusted in the claim settlement. There are no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period. The 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	
	2012	2011
Unpaid claims at beginning of year ...	$ 15,039	$ 530
Incurred claims:		
Provision for insured events of the current year	19,304	20,340
Increases (decreases) in provision for insured events of prior years	4,250	56
Total incurred claims	23,554	20,396
Payments:		
Claims attributable to insured events of the current year	6,992	5,505
Claims attributable to insured events of the prior years	7,706	382
Total payments	14,698	5,887
Total unpaid claims at end of the year	$ 23,895	$ 15,039

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 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. This care is also extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

Coverage is self-funded by contributions to the Plan, which is reported as a major component unit. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Employees and retirees also contribute to the cost of coverage for the 80/20 Standard Preferred Provider Organization (PPO) plan option. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on amounts for PPO plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the PPO plans. The authority for the PPO plans is provided in General Statute 135-48.2.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2010-11	$ 253,329	$ 2,449,828	$ (2,478,940)	$ 224,217
2011-12	224,217	2,506,642	(2,486,799)	244,060

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, 2011 to June 30, 2012, 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 2011 to June 2012.

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
2010-11	$ 3,439	$ 43,267	$ (42,320)	$ 4,386
2011-12	4,386	44,566	(45,419)	3,533

3. Disability Income Plan of North Carolina

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

C. Other Risk Management and Insurance Activities

1. Automobile, Fire and Other Property Losses

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

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

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

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

Claims of $10,000 or higher are paid when the Council of State approves the request for payment. Claims less than $10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2010-11	$ 1,777	$ 74	$ (367)	$ 1,484
2011-12	1,484	2,351	(2,282)	1,553

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

Insurance coverage varies depending upon the amount of coverage and the type of policy. Typically the amount of primary coverage for medical liability is $1 million per individual, claim, or incidence, and $3 million total or aggregate. 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, 2011 and June 30, 2012, 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, 2011 and June 30, 2012, 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, 2012, the Trust Fund purchased a direct insurance policy to cover the first $1 million per occurrence and $3 million in the aggregate for dental residents. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to $30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date. The Trust Fund council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of $51.367 million and $48.885 million are the present values of the aggregate actuarially determined claims liabilities of $49.741 million and $45.901 million, discounted at 2.0% at June 30, 2011 and 1.0% at June 30, 2012. 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
2010-11	$ 48,292	$ 11,425	$ (8,350)	$ 51,367
2011-12	51,367	635	(3,117)	48,885

3. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides $10 million excess insurance over the $1 million statutory limit payable for any one claim under the State Tort Claims Act. The first $150,000 of an award against a state agency is the responsibility of the state agency's General Fund budget code or up to $1 million if a Non-General Fund budget code. For General Fund budget codes, any award greater than $150,000 but less than $1 million is funded by proportionate shares of estimated lapse salaries from all agencies' General Fund budget codes. Since state agencies and component units are responsible for funding any tort claims of $1 million or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

4. Employee Dishonesty and Computer Fraud

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State and its component units with a limit of $5 million per occurrence, subject to a 10% participation in each loss and a $75,000 deductible. This coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the State and its component units are charged premiums by the private insurance company. A small number of state agencies and component units of the State require faithful performance coverage in addition to employee dishonesty coverage. In these instances, separate policies have been purchased. The amounts of coverage and the deductibles vary among these separate policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

5. Statewide Workers' Compensation Program

The Workers' Compensation Program (the Program) was created by Chapter 97, Article 1, of the General Statutes to provide benefits to workers injured on the job. All employees of the State and its component units are included in the Program. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Also, certain occupational diseases specifically designated in the North Carolina Workers' Compensation Act are compensable. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits. Payments of all medical benefits are subject to approval based on a fee schedule established by the North Carolina Industrial Commission (NCIC). Loss of wages and disability benefits are payable based on 66 2/3% of an employee's average weekly salary subject to a statutory compensation rate minimum and maximum established annually by the NCIC. Death benefits are payable for 500 weeks at 66 2/3% of an employee's average weekly salary. In certain instances, death benefits may be extended beyond the 500 weeks.

The responsibility for claiming compensation is on the injured employee. If the injured employee or his representative does not notify the employer within 30 days from the date of injury, the employer can refuse compensation. A claim must be filed with the NCIC by either the employee or the employer within two years from the date of knowledge thereof; otherwise the claim is barred by law and no further compensation is allowable. When an employee is injured, the employer's primary responsibility is to arrange for and provide the necessary treatment for any work-related injury. The employer tries to provide the best possible medical care for injured employees to help them reach maximum medical improvement and return to work as soon as possible.

The State and its component units are self-insured for workers' compensation. A third-party administrator handles workers' compensation claims. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. The third party administrator receives a per case administration fee and draws down state funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

Each state agency and participating component unit is billed for claims and an administrative fee which is paid by the fund to the third party administrator. This fund is reported as an internal service fund in this report. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. Since the related liability is not measurable, claim costs are recognized when paid. For the year ended June 30, 2012, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	$ 112,358
University of North Carolina System	11,047
All other component units	36
Total	$ 123,441

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, 2012 was $2.29 million. As of June 30, 2012, the Fund consisted of 1,156 eligible units representing approximately 43,477 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, 2012, 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, 2012, there were no claims recoverable from reinsurers.

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
2010-11	$ 15,643	$ 10,621	$ (8,151)	$ 18,113
2011-12	18,113	9,930	(9,052)	18,991

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, 2012 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2012

(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	$ 110,202	$ 1,341	$ 28	$ 682	$ 1,351	$ 39,481
Investments:						
Collective investment funds	—	—	—	—	—	—
Unallocated insurance contracts	—	—	—	—	—	—
Synthetic guaranteed investment contracts	—	—	—	—	—	—
State Treasurer investment pool	55,017,042	439,388	27,606	317,189	86,665	18,579,424
Non-State Treasurer pooled investments	—	—	—	—	—	—
Securities lending collateral	1,222,535	9,796	615	7,057	2,029	411,292
Receivables:						
Accounts receivable	2,850	12	—	36	9	4,090
Interest receivable	139	1	—	1	1	37
Contributions receivable	47,867	—	21	4,318	—	49,901
Due from other funds	35,862	1,780	—	—	—	—
Due from component units	4,098	—	—	—	—	—
Notes receivable	—	—	—	—	—	—
Total Assets	56,440,595	452,318	28,270	329,283	90,055	19,084,225
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable	—	—	—	—	—	—
Benefits payable	9,163	73	14	124	21	287
Obligations under securities lending	1,277,860	10,250	638	7,370	2,138	432,338
Total Liabilities	1,287,023	10,323	652	7,494	2,159	432,625
Net Assets						
Held in trust for:						
Employees' pension and other benefits	55,153,572	441,995	27,618	321,789	87,896	18,651,600
Total Net Assets	$ 55,153,572	$ 441,995	$ 27,618	$ 321,789	$ 87,896	$ 18,651,600

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	Totals
$ —	$ —	$ 5,629	$ 751,348	$ 15,280	$ 1,290	$ 85	$ 926,717
180,730	36,832	—	—	—	—	—	217,562
650,231	139,811	—	—	—	—	—	790,042
872,431	192,326	—	—	—	—	—	1,064,757
—	—	404,310	—	403,079	—	46,028	75,320,731
3,624,032	451,431	—	—	—	—	—	4,075,463
—	—	24,200	76,800	25,193	135	2,712	1,782,364
204	33	—	—	17,012	—	—	24,246
—	—	3	343	7	—	—	532
6,716	203	855	22,320	2,311	—	87	134,599
—	—	427	13,634	1,388	—	—	53,091
—	—	49	2,956	307	—	—	7,410
250,391	13,256	—	—	—	—	—	263,647
5,584,735	833,892	435,473	867,401	464,577	1,425	48,912	84,661,161
978	219	110	—	—	—	—	1,307
—	—	3,533	61,107	103	—	—	74,425
—	—	25,852	80,663	26,812	138	2,884	1,866,943
978	219	29,495	141,770	26,915	138	2,884	1,942,675
5,583,757	833,673	405,978	725,631	437,662	1,287	46,028	82,718,486
$ 5,583,757	$ 833,673	$ 405,978	$ 725,631	$ 437,662	$ 1,287	$ 46,028	$82,718,486

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2012
(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	$ 1,015,762	$ 18,956	$ —	$ —	$ —	$ 389,399
Members	815,245	5,071	232	2,738	—	334,588
Other contributions	—	—	—	14,398	7,007	—
Total contributions	1,831,007	24,027	232	17,136	7,007	723,987
Investment Income:						
Investment earnings (loss)	1,456,843	11,619	731	8,563	2,297	490,367
Less investment expenses	(266,452)	(2,119)	(135)	(1,542)	(415)	(89,342)
Net investment income (loss)	1,190,391	9,500	596	7,021	1,882	401,025
Other additions:						
Fees, licenses and fines	—	—	—	—	—	3,682
Interest earnings on loans	—	—	—	—	—	—
Miscellaneous	1,336	—	—	8	—	38
Total other additions	1,336	—	—	8	—	3,720
Total additions	3,022,734	33,527	828	24,165	8,889	1,128,732
Deductions:						
Claims and benefits	3,520,078	32,621	2,048	24,084	7,140	918,637
Medical insurance premiums	—	—	—	—	—	—
Refund of contributions	98,771	489	—	450	—	50,105
Administrative expenses	10,661	30	11	855	61	4,444
Other deductions	12	—	—	—	—	13
Total deductions	3,629,522	33,140	2,059	25,389	7,201	973,199
Change in net assets	(606,788)	387	(1,231)	(1,224)	1,688	155,533
Net assets — July 1	55,760,360	441,608	28,849	323,013	86,208	18,496,067
Net assets — June 30	$ 55,153,572	$ 441,995	$ 27,618	$ 321,789	$ 87,896	$ 18,651,600

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
$ 157,101	$ —	$ 24,795	$ 710,027	$ 80,537	$ 1,023	$ 843	$ 2,398,443
277,222	58,213	—	—	—	—	—	1,493,309
—	—	20,976	—	—	—	—	42,381
434,323	58,213	45,771	710,027	80,537	1,023	843	3,934,133
(15,174)	4,164	43,696	4,530	43,750	12	5,022	2,056,420
—	—	(77)	(140)	(78)	—	(9)	(360,309)
(15,174)	4,164	43,619	4,390	43,672	12	5,013	1,696,111
—	—	—	—	—	—	—	3,682
10,968	559	—	—	—	—	—	11,527
1,885	406	—	—	—	—	—	3,673
12,853	965	—	—	—	—	—	18,882
432,002	63,342	89,390	714,417	124,209	1,035	5,856	5,649,126
280,668	44,509	44,566	—	75,458	1,200	1,516	4,952,525
—	—	96	692,410	—	—	—	692,506
—	—	—	—	—	—	—	149,815
2,061	441	744	335	785	111	16	20,555
—	—	—	—	—	—	—	25
282,729	44,950	45,406	692,745	76,243	1,311	1,532	5,815,426
149,273	18,392	43,984	21,672	47,966	(276)	4,324	(166,300)
5,434,484	815,281	361,994	703,959	389,696	1,563	41,704	82,884,786
$ 5,583,757	$ 833,673	$ 405,978	$ 725,631	$ 437,662	$ 1,287	$ 46,028	$ 82,718,486

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, 2012 are presented below (dollars in thousands).

	N.C. Housing Finance Agency Home Ownership	N.C. Housing Finance Agency Rental
Condensed Statement of Net Assets		
Assets:		
Current assets	$ 334,394	$ —
Noncurrent assets	1,192,887	—
Total assets	1,527,281	—
Liabilities:		
Current liabilities	61,928	—
Noncurrent liabilities	1,186,807	—
Total liabilities	1,248,735	—
Net assets:		
Restricted	278,546	—
Total net assets	$ 278,546	$ —
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds)	$ 75,750	$ 632
Operating expenses	(64,227)	(825)
Operating income	11,523	(193)
Transfers in	13,117	—
Transfers out	—	(17,343)
Change in net assets	24,640	(17,536)
Net assets — July 1	253,906	17,536
Net assets — June 30	$ 278,546	$ —

NOTE 18: PLEDGED REVENUES

Primary Government

Governmental Activities

The State has pledged future federal transportation revenues to repay $512.085 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2012. These bonds were issued in October 2007, August 2009 and January 2012. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds of governmental activities are expected to require less than 9% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds (including North Carolina Turnpike Authority GARVEE bonds below) may not exceed 15% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is $624.151 million, payable through 2021. For the current fiscal year, principal and interest paid and total federal transportation revenues were $58.833 million and $1.224 billion, respectively.

Business-type Activities

North Carolina Turnpike Authority

The State has pledged, as security for revenue bonds issued by the North Carolina Turnpike Authority (NCTA), net revenues from the operation of the Triangle Expressway System and the Monroe Connector System. On July 29, 2009, NCTA issued Triangle Expressway System State Annual Appropriation Revenue Bonds ($352.675 million) and Triangle Expressway System Senior Lien Revenue Bonds ($270.083 million). On October 2010, NCTA issued Monroe Connector System State Annual Appropriation Revenue Bonds ($233.92 million). On November 2011, NCTA issued Monroe Connector System Senior Lien Revenue Bonds ($10 million) and State Annual Appropriation Revenue Bonds ($214.505 million). On December 2011, NCTA issued Monroe Connector System GARVEE bonds ($145.535 million). For the Senior Lien Revenue Bonds, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway System. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of state annual appropriations, federal interest subsidy payments, and investment income. For the GARVEE bonds, the State has pledged future federal transportation revenues. Such federal transportation revenues consist of amounts derieved from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United Stated Code. Annual principal and interest requirements on the GARVEE bonds of the NCTA are expected to require less than 13% of such federal transportation revenues.

The State has elected to treat the State Annual Appropriation Revenue Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on these bonds.

Proceeds from the bonds 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 $2.494 billion, payable through fiscal year 2042 (final maturity date). For the current fiscal year, interest paid, available revenues (federal interest subsidy and investment revenues), and state appropriations (transfers in) were $49.753 million, $27.528 million, and $49 million, respectively. The first principal payment is due in fiscal year 2013.

Unemployment Compensation Fund

The State has pledged future unemployment tax contributions from employers to repay $2.566 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.

Currently, the repayable advances are payable from the unemployment tax contributions and additional federal unemployment taxes imposed on the State’s employers for calendar year 2011. Both will be used specifically for paying down the debt until it is settled. Meanwhile, the State unemployment benefits will continue to be paid from the repayable advances.

Total revenue collected from unemployment tax contributions for the year was 1.407 billion. The total amount collected from unemployment tax contributions and additional federal unemployment taxes used to pay down the principal on the repayable advances was $1.294 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	(1) Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments	Final Maturity Date	Payable as of 6/30/2012
Revenue Bonds							
Housing and Dining	Housing and Dining revenues	$ 56,511	11.00% - 74.00%	$ 37,074	$ 15,809	2035	$ 38,020
Utilities	Utilities Revenues	87,705	7.00% - 15.00%	40,896	3,868	2022	69,078
Health Care Facilities	Patient Service Revenues	224,149	9.00% - 100.00%	99,219	12,085	2034	147,845
Other	Various	1,739	84.00% - 100.00%	277	236	2019	1,210
Total		$ 370,104		$ 177,466	$ 31,998		$ 256,153
Certificates of Participation							
Student Housing System	Housing Revenues	$ 37,502	64.00% - 78.00%	$ 2,207	$ 1,491	2036	$ 21,020
Banner System	Tuition and Administrative Fees	1,583	61.00%	1,308	793	2014	1,495
Total		$ 39,085		$ 3,515	$ 2,284		$ 22,515
Note Payable							
Student Housing System	Housing Revenues	$ 31,642	42.64%	120	344	2014	$ 31,000
Total		$ 31,642		$ 120	$ 344		$ 31,000

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

North Carolina Housing Finance Agency

The North Carolina Housing Finance Agency (Agency) has collateralized $1.20 billion in mortgage loans receivable, $130.78 million in reserves and $79.61 million in program funds, to repay $1.206 billion single family and multiple family bonds payable at June 30, 2012. Proceeds from the bonds issued were utilized to finance housing opportunities throughout North Carolina. The bonds are payable through fiscal year 2042 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 $1.981 billion. For the current fiscal year, principal and interest paid and net available revenue on mortgage loans receivable were $118.327 million and $70.428 million, respectively.

State Education Assistance Authority

The State Education Assistance Authority has collateralized $2.92 billion in student loans receivable and $29.47 million in reserves to repay $2.915 billion of bonds and conduit funding notes at June 30, 2012. 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 and notes issued were utilized to finance student loans. The bonds and notes are payable through fiscal year 2034 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 $419.818 million and $440.646 million respectively. The total principal and interest remaining to be paid on the bonds and notes payable is $3.216 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, 2012 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	$ 445	$ 1,908,935	$ 256,697	$ 3,329	$ 50,987	$ 502,351	$ 155,281	$ 2,878,025
Investments	792,851	1,523,966	70,176	3,226	—	—	115,649	2,505,868
Receivables, net	2	928,704	74,961	22,761	69,110	27,555	16,559	1,139,652
Due from component units	—	4,159	2,281	—	2,215	—	247	8,902
Due from primary government	—	112,344	—	48,666	41,969	—	1,559	204,538
Inventories	—	85,349	19,747	—	—	—	617	105,713
Prepaid items	84	52,294	3,891	—	44	—	2,144	58,457
Notes receivable, net	—	103,121	932	1,289,637	3,038,316	—	10,638	4,442,644
Investment in joint venture	—	17,554	—	—	—	—	—	17,554
Deferred charges	—	15,496	—	12,746	15,525	—	995	44,762
Restricted/designated cash and cash equiv.	—	1,321,824	90,837	411,037	239,835	—	70,252	2,133,785
Restricted investments	—	3,291,027	151,615	49,335	1,094,413	—	233	4,586,623
Restricted due from primary government	—	1,568	36,389	—	—	—	—	37,957
Restricted due from component units	—	—	1,373	—	—	—	—	1,373
Deferred outflow of resources	—	168,944	—	8,141	—	—	206	177,291
Capital assets-nondepreciable	908	1,564,232	341,774	248	—	—	120,896	2,028,058
Capital assets-depreciable, net	2,896	9,685,760	2,103,610	3,632	5,657	44	542,754	12,344,353
Total Assets	797,186	20,785,277	3,154,283	1,852,758	4,558,071	529,950	1,038,030	32,715,555
Liabilities								
Accounts payable and accrued liabilities	73,066	709,107	61,872	3,145	23,282	23,223	31,545	925,240
Medical claims payable	—	—	—	—	—	244,060	—	244,060
Interest payable	—	37,921	21	26,855	4,543	—	976	70,316
Short-term debt	—	182,650	—	—	—	—	—	182,650
Due to component units	10,275	—	—	—	—	—	—	10,275
Due to primary government	1,247	610	33	—	—	8	3,473	5,371
Unearned revenue	—	169,379	20,161	48,176	91,993	19,604	14,778	364,091
Advance from primary government	—	—	—	—	—	—	24,671	24,671
Deposits payable	—	13,076	—	3,456	—	—	62	16,594
Funds held for others	—	782,597	7,717	—	972,147	—	2,507	1,764,968
Hedging derivatives liability	—	168,944	—	8,141	—	—	206	177,291
Long-term liabilities:								
Due within one year	15	240,136	11,709	34,963	331,963	486	2,957	622,229
Due in more than one year	21	4,209,053	98,905	1,179,756	2,548,081	246	105,110	8,141,172
Total Liabilities	84,624	6,513,473	200,418	1,304,492	3,972,009	287,627	186,285	12,548,928
Net Assets								
Invested in capital assets, net of related debt	3,805	7,418,239	2,408,957	3,880	5,657	44	532,095	10,372,677
Restricted for:								
Nonexpendable:								
Higher education	—	1,804,907	155,929	—	—	—	—	1,960,836
Expendable:								
Higher education	—	2,085,747	193,965	—	518,930	—	—	2,798,642
Health and human services	—	—	—	—	—	—	37	37
Economic development	—	—	—	534,216	—	—	221,760	755,976
Unrestricted	708,757	2,962,911	195,014	10,170	61,475	242,279	97,853	4,278,459
Total Net Assets	$ 712,562	$ 14,271,804	$ 2,953,865	$ 548,266	$ 586,062	$ 242,323	$ 851,745	$ 20,166,627

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	$ 35,261	$ 9,341,127	$ 2,155,178	$ 377,421	$ 263,419	$ 2,667,014	$ 338,851	$ 15,178,271
Program revenues:								
Charges for services	7	5,995,746	316,624	333,472	75,823	2,740,829	124,159	9,586,660
Operating grants and contributions:								
State aid - program	—	—	—	46,106	126,192	—	121,916	294,214
Other operating grants and contributions	(9,645)	1,067,649	873,477	—	66,407	102,170	12,172	2,112,230
Capital grants and contributions:								
State capital aid	—	309,755	90,688	—	—	—	2,783	403,226
Other capital grants and contributions	—	42,045	157,142	—	—	—	4,994	204,181
Net program (expense) revenue	(44,899)	(1,925,932)	(717,247)	2,157	5,003	175,985	(72,827)	(2,577,760)
Non-tax general revenues:								
State aid - general	52,926	2,550,936	873,516	9,673	—	—	31,248	3,518,299
Miscellaneous	—	11,643	20	—	—	—	4,771	16,434
Total non-tax general revenues	52,926	2,562,579	873,536	9,673	—	—	36,019	3,534,733
Contributions to endowments	—	79,208	6,935	—	—	—	—	86,143
Change in net assets	8,027	715,855	163,224	11,830	5,003	175,985	(36,808)	1,043,116
Net assets — July 1, as restated	704,535	13,555,949	2,790,641	536,436	581,059	66,338	888,553	19,123,511
Net assets — June 30	$ 712,562	$ 14,271,804	$ 2,953,865	$ 548,266	$ 586,062	$ 242,323	$ 851,745	$ 20,166,627

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	$ (10,275)	$ 4,159	$ 3,654	$ —	$ 2,215	$ —	$ 247	$ —
Grant revenue (expense)	(5,779)	291	3,073	—	2,215	—	200	—
UNC System-grant revenue (expense)	—	(54,279)	—	—	54,279	—	—	—

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	Other Component Units	Total
Due To Component Units:									
General Fund	$ —	$ —	$ —	$112,344	$ —	$ 48,666	$ 32,134	$ —	$ 193,144
Highway Fund	—	—	—	—	—	—	—	1,559	1,559
Other Governmental Funds	—	—	—	1,568	36,389	—	9,835	—	47,792
Due To Primary Government:									
The Golden LEAF, Inc	1,247	—	1,247	—	—	—	—	—	—
University of North Carolina System	5	605	610	—	—	—	—	—	—
Community Colleges	2	31	33	—	—	—	—	—	—
State Health Plan	—	8	8	—	—	—	—	—	—
Other Component Units	3,449	24	3,473	—	—	—	—	—	—
Total	$ 4,703	$ 668	$ 5,371	$113,912	$ 36,389	$ 48,666	$ 41,969	$ 1,559	$ 242,495

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 2001, 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 $49 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, NCSU entered a capital improvement plan agreement with the Authority to pay $6 million in quarterly installments over the next 15 years. In fiscal year 2012, the name "RBC Center" changed to "PNC Arena" due to the purchase of RBC Bank by PNC Bank.

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 (401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (Deferred Comp 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, which is a subsidiary of The Prudential Insurance Company of America (Prudential), provides administrative services related to mutual funds, the North Carolina Stable Value Fund and to Prudential Insurance and Annuity Company (a subsidiary of Prudential) which owns the Pooled Separate Account SA-NC. Prudential is also a provider of recordkeeping and participant services. The fees to Prudential are deducted from the participants' account balances.

On November 30, 2010, the Board engaged Galliard Capital Management (Galliard) to provide professional management of the North Carolina Stable Value Fund (Stable Value Fund). As a fiduciary investment advisor, Galliard has the discretion over the benefit responsive contracts and the underlying investment managers. Galliard also has the authority to invest in securities subject to guidelines agreed upon 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. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms. The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances.

State Street, contracted by Prudential and MetLife, provides custodial services for the 401(k) Plan for investments in the Stable Value Fund. For the Deferred Comp Plan, State Street provides custodial services for investments in the Pooled Separate Account SA-NC and the PIMCO managed portfolio in the Stable Value Fund. Wells Fargo Bank, N.A (Wells Fargo), appointed by Galliard, provides custodial services for most investments in the Stable Value Fund. Wells Fargo also provides custodial services for investment portfolios managed by Galliard, Prudential, Payden and Rygel, and Wells Fargo. The Bank of New York Mellon, appointed by Great West, provides custodial services for the Great West portfolio in the Stable Value Fund.

Effective January 19, 2011, the 401(k) Plan ended its securities lending program with State Street and discontinued the Securities Lending Quality Trust (SLQT).

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, 2012, this support approximated $73.03 million for the UNC System and $1.21 million 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 2044, the outstanding principal of such bonds and notes as of June 30, 2012, was $7.45 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 from February 2009 to December 31, 2010, 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, 2012, 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.

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

***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. North Carolina's individual arbitration is scheduled for February 2013.

***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 filed a motion to dismiss, which was granted by the trial court. Plaintiffs appealed to the Court of Appeals and by unanimous decision the Court affirmed the dismissal. Plaintiffs then filed a petition for discretionary review with the North Carolina Supreme Court which was denied on August 23, 2012.

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, 2012, the State is unable to estimate what liabilities may result from such audits.

D. Highway Construction

The State has placed on deposit in court $203.95 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 $63.41 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of $99.28 million. These costs have not been included in project-to-date costs.

E. USDA-Donated Commodities

The State has custodial responsibility for $1.3 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, 2012, the State had commitments of $2.62 billion for construction of highway infrastructure. Of this amount, $2.16 billion relates to the Highway Fund, $22.67 million relates to the NC Turnpike Authority, and $440.75 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled $603.72 million (including $402.97 million for the Department of Environment and Natural Resources and $133.41 million for the Division of Mental Health within the Department of Health and Human Services).

At June 30, 2012, the University of North Carolina System (component unit) had outstanding construction commitments of $632.95 million (including $163.14 million for North Carolina State University, $150.76 million for University of North Carolina at Chapel Hill, $122.5 million for University of North Carolina at Charlotte, $50.12 million for University of North Carolina at Greensboro, $33.1 million for UNC Healthcare System, $31.36 million for University of North Carolina at Wilmington, and $28.07 million for East Carolina University).

At June 30, 2012, community colleges (component units) had outstanding construction commitments of $59.1 million (including $14.81 million for Cape Fear Community College, $8.17 million for Central Piedmont Community College, $6.86 million for Wake Technical Community College, $5.97 million for Guilford Technical Community College, $2.62 Randolph Community College, $2.37 million for Haywood Community College, and $2.18 million for Sandhills 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, 2012, the State Treasurer has $2.41 billion in unfunded commitments in the Real Estate Investment portfolio which includes 68.57 million euro and 11.94 million pounds sterling converted to U.S. dollar equivalent. In the Alternative Investment portfolio, the State Treasurer has unfunded commitments of $1.85 billion which include 166 million euro converted to the U.S. dollar equivalent. At June 30, 2012, there were also unfunded commitments in the Inflation Protection Investment and Credit Investment portfolios in the amount of $819.2 million and $206.53 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, 2012, the UNC Investment Fund had approximately $568.4 million unfunded committed capital.

At June 30, 2012, The Golden LEAF (Long-term Economic Advancement Foundation), Inc. (component unit) had outstanding commitments of $53.43 million to invest in several private equity funds.

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. (Foundation) would continue to get 50% of the settlement funds, $70.5 million in 2012. However Session Law 2011-145, Section 2.2.(e), diverted $17.6 million of the Foundation's anticipated MSA payments for each year of the biennium 2011-13 for General Fund availability. As of July 2011, Session Law 2011-145, Section 6.11(d) directed that the remaining 50% of the funds are allocated to pay anticipated debt service payments through fiscal year ended June 30, 2031 for special indebtedness authorized by the State Capital Facilities Act of 2004 [Session Law 2004-179]; transfer $8 million to the University Cancer Research Fund; and transfer the remaining balance to the General Fund. These remaining funds are to be used to benefit tobacco producers, tobacco allotment holders, and persons engaged in tobacco-related businesses and for the benefit of health-related programs and initiatives.

H. Other Contingencies

As of June 30, 2012, the North Carolina Global TransPark Authority (Authority), a component unit of the State, had a loan outstanding including accrued interest payable totaling $25.191 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2014. Senate Bill 409 [Session Law 2011-340] required the Escheat Fund debt to be reduced by $17.5 million. As of September 30, 2012, 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, 2012, the Authority has an amortized commitment of approximately $14.1 million from the FAA, DOD, and EDA.

The Civil Rights Division of the U.S. Department of Justice investigated the state's mental health system and found the State to be in violation of Title II of the Americans with Disabilities Act of 1990 (ADA), 42 U.S.C. Sec 12131, and the following, as interpreted by the U.S. Supreme Court in *Olmstead v. L.C.*, 527 U.S. 581 (1999), and Section 504 of the Rehabilitation Act of 1973 (Rehab Act), 29 U.S.C. Sec 794(a). On August 23, 2012, the Civil Rights Division and the State entered into an agreement that addresses the corrective measures that will ensure that the State will willingly meet the requirements of the ADA, Section 504 of the Rehab Act, and the *Olmstead* decision. Through the agreement, it is intended that the goals of community integration and self-determination will be achieved. The State is responsible for determining and identifying the amount of appropriation funding that is needed to fulfill this agreement which will be phased in over the next eight years. In House Bill 950 [Session Law 2012-142 Section 10.23A.(e)], $10.3 million was appropriated to support the Department of Health and Human Services in the implementation of its plan for transitioning individuals with severe mental illness to community living arrangements, including establishing a rental assistance program. Both parties of the agreement have selected a reviewer to monitor the State's implementation of this agreement. The reviewer will have full authority to independently assess, review, and report annually on the State's implementation of and compliance with the provisions of this agreement. The potential liability to the State cannot be reasonably estimated; however, a recurring appropriation will be necessary. If the State fails to comply with this agreement, the United States can seek an appropriate judicial remedy.

NOTE 23: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, became effective for the fiscal year ended June 30, 2012. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement does not apply under current conditions since no swap counterparties or swap counterparty credit support providers have been replaced by the State's component units.

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 amounts in the "Other Adjustments" column are primarily due to the correction of errors related to prior periods.

	July 1, 2011 Fund Equity as Previously Reported	Fund Reclassifications	Other Adjustments	July 1, 2011 Fund Equity as Restated
Primary Government				
Major Governmental Funds:				
General Fund	$ 1,183,705	$ 10,006	$ (10,606)	$ 1,183,105
Highway Fund	647,962	—	(75,295)	572,667
Highway Trust Fund	186,866	—	75,295	262,161
Other Governmental Funds:				
Special Revenue Funds	897,245	(10,748)	921	887,418
Capital Projects Funds	618,877	—	—	618,877
Permanent Funds	95,698	—	—	95,698
Total Governmental Funds	3,630,353	(742)	(9,685)	3,619,926
Internal Service Funds	224,533	—	1,221	225,754
Government-wide adjustments:				
Capital assets	39,364,913	(14)	(81,001)	39,283,898
Unavailable deferred revenues	213,898	—	—	213,898
Long-term liabilities	(8,932,868)	92	1,163	(8,931,613)
Accrued interest payable	(86,314)	—	—	(86,314)
Investment derivatives	(52,201)	—	—	(52,201)
Pension assets	2,997	—	—	2,997
Total Government-wide adjustments	30,510,425	78	(79,838)	30,430,665
Total Governmental Activities	34,365,311	(664)	(88,302)	34,276,345
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	(1,968,693)	—	—	(1,968,693)
EPA Revolving Loan Fund	1,171,600	—	—	1,171,600
N.C. Turnpike Authority	190,340	—	—	190,340
Other enterprise funds	136,496	664	8	137,168
Total Business-type Activities - Enterprise Funds	(470,257)	664	8	(469,585)
Fiduciary Funds				
Pension and Other Employee Benefit Trust Funds	82,884,786	—	—	82,884,786
Investment Trust Funds	879,126	—	—	879,126
Private Purpose Trust Funds	1,060,300	—	—	1,060,300
Total Fiduciary Funds	84,824,212	—	—	84,824,212
Total Primary Government	$118,719,266	$ —	$ (88,294)	$118,630,972
Component Units				
The Golden LEAF, Inc.	$ 704,535	$ —	$ —	$ 704,535
University of North Carolina System	13,558,045	—	(2,096)	13,555,949
Community Colleges	2,786,495	—	4,146	2,790,641
NC Housing Finance Agency	536,436	—	—	536,436
State Education Assistance Authority	581,059	—	—	581,059
State Health Plan	66,338	—	—	66,338
Other component units	888,832	—	(279)	888,553
Total Component Units	$ 19,121,740	$ —	$ 1,771	$ 19,123,511

NOTE 25: SUBSEQUENT EVENTS

Primary Government

Federal Repayable Advances

For the period July 1, 2012 through November 16, 2012, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of $380.33 million to finance an operating deficit in the State's unemployment compensation fund. Proceeds from the advances were used to pay unemployment benefits. Interest began accruing January 1, 2012 at an interest rate of 2.94%. The interest of $83.93 million was paid at the end of September 2012 from the State's surcharge reserve. Since July 1, 2012 total revenue collected from unemployment tax contributions was $516.45 million which was used entirely to pay down the principal on the advances. At November 16, 2012, the outstanding balance of the FUA advances was approximately $2.42 billion.

Component Units

University of North Carolina System

North Carolina State University – Commercial Paper

North Carolina State University's outstanding commercial paper increased to $80 million as a result of additional borrowing on July 9, 2012 and October 1, 2012. These funds provide interim funding for the expansion and renovation of the Talley Student Center and construction of Centennial Campus Housing and Dining.

University of North Carolina at Chapel Hill – Taxable Fixed Rate Bonds and Tax-exempt Floating Rate Notes.

On July 10, 2012, the Board of Governors of the University of North Carolina System issued $127.1 million of taxable fixed rate bonds, Series 2012C. These bonds will bear interest from that date. Interest on the bonds will be payable semiannually on each December 1 and June 1, commencing on December 1, 2012. The bonds will mature from December 1, 2013 to December 1, 2033 and were issued at coupon rates ranging from 0.35% to 3.6%. The bonds were issued to provide for the refunding of all the outstanding principal amount of the outstanding General Revenue Bonds, Series 2001A, and the advance refunding of the General Revenue Bonds, Series 2003.

On July 18, 2012, the Board of Governors of the University of North Carolina System issued $100 million in tax-exempt floating rate notes, Series 2012A, and $100 million in Series 2012B. The bonds will bear interest from that date. Interest on the bonds will be payable on the first business day of each month, commencing on August 1, 2012. The stated maturity date of the Series 2012A and Series 2012B Bonds is December 1, 2041. However, the Series 2012A Bond has an index tender date of December 1, 2015 and the Series 2012B Bond has an index tender date of December 1, 2017. The bonds were issued to provide funds for future capital projects and refunding of outstanding commercial paper.

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

On July 12, 2012, the University of North Carolina at Greensboro issued $52.36 million in Series 2012A General Revenue and Revenue Refunding Bonds. These bonds are dated July 12, 2012, and will bear interest from that date. Interest on the bonds will be payable semiannually on each October 1 and April 1, commencing October 1, 2012. The bonds will mature from April 1, 2013 to April 1, 2037 and were issued at coupon rates ranging from 2% to 5%.

The University issued $37.55 million of the bonds to provide funds for the construction and equipping of a campus police building on the University's campus and for the acquisition of a 400 bed Student Housing Facility located on the Univeristy's campus.

The University issued $1.46 million of the bonds for a current refunding of $1.58 million of outstanding 2002A University of North Carolina System Pool Revenue Bonds with an average interest rate of 5.35%. The refunding was undertaken to reduce total debt service payments by $200 thousand over the next six years and resulted in an economic gain of $182 thousand.

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

NOTES TO THE FINANCIAL STATEMENTS

University of North Carolina Hospitals at Chapel Hill

On September 25, 2012, High Point Regional Health Care System and UNC Health Care System announced an agreement in principle to form a strategic partnership. Under the terms of the agreement, which is expected to be finalized in early 2013, UNC Health Care System will become the sole member of High Point Regional Health Care System, and provide $150 million for capital improvements and $50 million for the establishment of a newly formed community health fund. High Point Regional Health Care System will remain a private, not-for-profit organization.

On November 9, 2012, Caldwell Memorial Hospital and UNC Health Care System announced an agreement in principle to form a strategic partnership. Under the terms of the agreement, which is expected to be finalized in the first half of 2013, UNC Health Care System will become the sole member of Caldwell Memorial Hospital and provide at least $35 million for capital improvements at Caldwell Memorial over a five-year period, and contribute at least $4 million to the Caldwell Memorial Hospital Foundation. Caldwell Memorial Hospital will remain as a private, not-for-profit full-service, acute care hospital.

North Carolina Housing Finance Agency – Home Ownership Revenue Refunding Bonds

On July 19, 2012, the North Carolina Housing Finance Agency (the Agency) issued $121.67 million in Series 33 taxable Home Ownership Revenue Refunding Bonds. These bonds are dated July 19, 2012, 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, 2013. The bonds will mature from January 1, 2013 to January 1, 2034 and bear interest rates ranging from 0.41% to 4.32%. The proceeds of the bonds issued by the Agency were to refund bonds Series 2, 3, 4, 8, 10, 12, 13 and 14 on August 1, 2012.

State Education Assistance Authority – Student Loan Backed Bonds

On August 23, 2012, the State Education Assistance Authority (the Authority) issued $600 million in Student Loan Backed Bonds. These bonds are dated August 23, 2012 and will accrue interest at the rate of one month London Interbank Offered Rate (LIBOR) plus 0.8% from that date. The principal and interest is payable on October 25, 2012 and monthly thereafter. While the stated maturity date is July 25, 2039, principal amounts will be paid monthly based on funds available. As such, the final payoff is expected earlier. The bonds were issued to prepay a portion of the Authority's Funding Note under the Straight A Funding Federal Conduit and to fund distributions to the Authority for the reimbursement for the pledge of certain Student Loans.

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Required Supplementary Information

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

June 30, 2012

(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'	12-31-11	$ 58,125,011	$ 61,846,697	$ 3,721,686	94.0%	$ 12,801,046	29.1%
	12-31-10	57,102,198	59,876,066	2,773,868	95.4%	13,053,831	21.3%
	12-31-09	55,818,099	58,178,272	2,360,173	95.9%	13,253,030	17.8%
	12-31-08	55,127,658	55,518,745	391,087	99.3%	13,267,554	3.0%
	12-31-07	55,283,120	52,815,089	(2,468,031)	104.7%	12,701,017	(19.4)%
	12-31-06	52,420,808	49,391,907	(3,028,901)	106.1%	11,711,386	(25.9)%
Consolidated Judicial	12-31-11	$ 460,647	$ 512,643	$ 51,996	89.9%	$ 67,815	76.7%
	12-31-10	451,196	492,606	41,410	91.6%	66,605	62.2%
	12-31-09	439,987	474,949	34,962	92.6%	66,171	52.8%
	12-31-08	433,553	441,933	8,380	98.1%	65,083	12.9%
	12-31-07	430,356	418,137	(12,219)	102.9%	61,338	(19.9)%
	12-31-06	406,015	378,490	(27,525)	107.3%	53,348	(51.6)%
Legislative	12-31-11	$ 29,468	$ 23,757	$ (5,711)	124.0%	$ 3,679	(155.2)%
	12-31-10	29,835	23,752	(6,083)	125.6%	3,668	(165.8)%
	12-31-09	29,792	23,511	(6,281)	126.7%	3,622	(173.4)%
	12-31-08	30,097	23,092	(7,005)	130.3%	3,670	(190.9)%
	12-31-07	30,698	22,883	(7,815)	134.2%	3,680	(212.4)%
	12-31-06	29,589	21,742	(7,847)	136.1%	3,695	(212.4)%
Firemen's and Rescue Squad Workers'	6-30-11	$ 327,984	$ 391,837	$ 63,853	83.7%	N/A	N/A
	6-30-10	318,273	370,236	51,963	86.0%	N/A	N/A
	6-30-09	315,697	351,324	35,627	89.9%	N/A	N/A
	6-30-08	316,973	339,022	22,049	93.5%	N/A	N/A
	6-30-07	305,869	322,453	16,584	94.9%	N/A	N/A
	6-30-06	287,933	304,339	16,406	94.6%	N/A	N/A
North Carolina National Guard	12-31-11	$ 91,108	$ 129,500	$ 38,392	70.4%	N/A	N/A
	12-31-10	86,559	127,066	40,507	68.1%	N/A	N/A
	12-31-09	81,371	121,855	40,484	66.8%	N/A	N/A
	12-31-08	78,067	112,747	34,680	69.2%	N/A	N/A
	12-31-07	74,794	109,431	34,637	68.3%	N/A	N/A
	12-31-06	66,898	105,017	38,119	63.7%	N/A	N/A
Registers of Deeds'	12-31-11	$ 42,623	$ 22,194	$ (20,429)	192.1%	$ 5,875	(347.7)%
	12-31-10	40,529	22,104	(18,425)	183.4%	5,926	(310.9)%
	12-31-09	38,913	21,840	(17,073)	178.2%	6,092	(280.3)%
	12-31-08	37,212	18,365	(18,847)	202.6%	6,024	(312.9)%
	12-31-07	35,453	17,830	(17,623)	198.8%	5,869	(300.3)%
	12-31-06	32,371	17,375	(14,996)	186.3%	5,558	(269.8)%
Local Governmental Employees'	12-31-11	$ 19,326,359	$ 19,373,800	$ 47,441	99.8%	$ 5,106,766	0.9%
	12-31-10	18,570,514	18,646,430	75,916	99.6%	5,113,742	1.5%
	12-31-09	17,723,253	17,804,791	81,538	99.5%	5,184,128	1.6%
	12-31-08	17,100,739	17,173,975	73,236	99.6%	4,974,742	1.5%
	12-31-07	16,791,984	16,868,147	76,163	99.5%	4,750,682	1.6%
	12-31-06	15,564,789	15,643,377	78,588	99.5%	4,468,394	1.8%

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 135.

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

For the Six-Year Period 2007 to 2012 (July 1 to June 30)

(Expressed in Thousands)

Retirement System	*State Fiscal Year*	*Annual Required Contribution*	*Percentage Contributed*	
Teachers' and State Employees'	2012	$ 988,418	100%	
	2011	902,661	73%	
	2010	483,205	100%	
	2009	472,374	100%	
	2008	406,576	99%	Note 1
	2007	332,149	100%	Note 2
Consolidated Judicial	2012	$ 17,204	100%	
	2011	13,082	78%	
	2010	10,248	100%	
	2009	8,373	106%	
	2008	8,158	104%	Note 1
	2007	6,520	100%	Note 2
Legislative	2012	$ —	NR	
	2011	—	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	Note 1
	2007	—	NR	
Firemen's and Rescue Squad Workers'	2012	$ 14,389	100%	
	2011	12,243	83%	
	2010	10,074	100%	
	2009	9,757	100%	
	2008	8,734	100%	
	2007	8,440	100%	
North Carolina National Guard	2012	$ 6,075	115%	
	2011	5,719	122%	
	2010	5,682	123%	
	2009	6,248	94%	
	2008	6,232	112%	
	2007	7,324	96%	
Registers of Deeds' Note 3	2012	$ —	NR	
	2011	—	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	
	2007	—	NR	
Local Governmental Employees'	2012	$ 372,105	100%	
	2011	341,157	100%	
	2010	262,591	100%	
	2009	265,690	100%	
	2008	246,004	100%	
	2007	233,003	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 135.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2012

(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	12-31-11	$ 729,095	$ 30,339,346	$ 29,610,251	2.4%	$ 14,851,954	199.4%
	12-31-10	655,445	33,494,641	32,839,196	2.0%	15,098,336	217.5%
	12-31-09	556,303	33,321,784	32,765,481	1.7%	15,131,146	216.5%
Disability Income	12-31-11	$ 406,068	$ 511,417	$ 105,349	79.4%	$ 14,139,467	0.8%
	12-31-10	377,995	498,506	120,511	75.8%	14,360,373	0.8%
	12-31-09	352,628	492,731	140,103	71.6%	14,534,661	1.0%

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

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS

For the Fiscal Years Ended June 30, 2010-2012

(Expressed in Thousands)

	State Fiscal Year	*Annual Required Contribution*	*Percentage Contributed*
Retiree Health Benefit	2012	$ 2,480,160	34%
	2011	2,910,616	30%
	2010	3,018,969	27%
Disability Income	2012	$ 67,377	113%
	2011	67,841	113%
	2010	72,428	107%

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, 2012
(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Individual income	$ 9,820,050	$ 9,820,050	$ 10,272,136	$ 452,086
Corporate income	1,000,200	1,000,200	1,132,871	132,671
Sales and use	5,293,070	5,293,070	5,257,585	(35,485)
Franchise	649,900	649,900	612,528	(37,372)
Insurance	510,900	510,900	460,440	(50,460)
Beverage	296,600	296,600	287,363	(9,237)
Inheritance	64,000	64,000	58,103	(5,897)
Tobacco products	260,200	260,200	270,901	10,701
Other	112,800	112,800	111,166	(1,634)
Non-Tax:				
Fees, licenses and fines	279,566	279,566	372,494	92,928
Investment income	59,400	59,400	17,788	(41,612)
Disproportionate share receipts	115,000	115,000	115,000	—
Other	406,445	406,510	304,523	(101,987)
Transfers in	293,803	293,803	293,806	3
Tobacco settlement	—	88,053	88,053	—
Departmental:				
Federal funds	12,120,641	13,129,518	12,093,988	(1,035,530)
Local funds	707,005	744,924	736,698	(8,226)
Inter-agency grants and allocations	10,386	267,910	14,426	(253,484)
Intra-governmental transactions	4,013,805	5,834,735	5,514,384	(320,351)
Sales and services	124,308	135,628	135,877	249
Rental and lease of property	14,519	14,828	14,629	(199)
Fees, licenses and fines	898,902	638,965	620,507	(18,458)
Contributions, gifts and grants	1,427,638	1,872,206	1,414,634	(457,572)
Federal recovery funds	29,647	583,543	379,548	(203,995)
Miscellaneous	772,985	407,543	193,651	(213,892)
Total Revenues	39,281,770	42,879,852	40,773,099	(2,106,753)
Expenditures:				
Current:				
General government	959,336	786,425	801,340	(14,915)
Primary and secondary education	10,587,407	11,552,458	10,467,237	1,085,221
Higher education	3,955,761	4,500,854	4,423,739	77,115
Health and human services	18,605,106	21,747,096	20,581,740	1,165,356
Environment and natural resources	408,329	341,077	304,888	36,189
Economic development	618,848	703,153	582,900	120,253
Public safety, corrections, and regulation	2,689,192	3,209,184	2,949,135	260,049
Agriculture	129,030	207,263	185,314	21,949
Capital outlay	4,535	4,535	4,535	—
Debt service	1,921,669	1,208,984	732,801	476,183
Total Expenditures	39,879,213	44,261,029	41,033,629	3,227,400
Excess revenues over (under) expenditures	(597,443)	(1,381,177)	(260,530)	1,120,647
Total fund balance at July 1, as restated	2,005,966	2,005,966	2,005,966	—
Total fund balance at June 30	$ 1,408,523	$ 624,789	$ 1,745,436	$ 1,120,647

Fund balance reserved:	
Statutory	$ 513,115
Non-reverting purposes	838,624
Fund balance unreserved	393,697
Total fund balance at June 30	$ 1,745,436

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.

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, 2012 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, 2012	$ 1,745,436
Reconciling Adjustments:	
Basis Differences:	
Accrued revenues:	
Taxes receivable	1,757,395
Accounts receivable	240,470
Federal funds, net	565,682
Other receivables	169,290
Less:	
Tax refunds payable	(1,358,707)
Deferred revenue	(551,072)
Total accrued revenues	823,058
Accrued expenditures:	
Medical claims payable	(778,120)
Accounts payable and accrued liabilities	(738,275)
Other payables	(298,332)
Total accrued expenditures	(1,814,727)
Other Adjustments:	
Notes receivable	62,760
Inventories	80,054
Investment Market Value	(14,616)
Timing Differences:	
Authorized carryforward for specific encumbrances	140,483
Fund balance (GAAP basis) June 30, 2012	$ 1,022,448

D. Budgetary Reserves

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

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

At the beginning of fiscal year 2011-12 the balance of the Savings Reserve Account was $295.6 million. In accordance with Session Law 2012-142 the State Controller was directed to transfer $123.2 million from the unreserved fund balance to the Savings Reserve on June 30, 2012. At the end of the fiscal year 2011-12, the balance of this reserve was $418.8 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 2012-142, the State Controller was directed to transfer $23.2 million from the unreserved fund balance to the Repairs and Renovatons Reserve on June 30, 2012. At the end of the fiscal year 2011-12, the balance of this reserve was $89.3 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 2011-12, 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. At the end of the fiscal year 2011-12, the balance of this reserve was $4.5 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

$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 $15.4 million for fiscal year 2011-12. At the end of fiscal year 2011-12, the balance of this reserve was $0.5 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, 2012 *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 636,726	$ —	$ 4,567	$ 641,293
Investments	202,588	—	—	202,588
Securities lending collateral	60,554	3,960	6,748	71,262
Receivables, net:				
Taxes receivable	2,151	—	—	2,151
Accounts receivable	16,214	2	—	16,216
Intergovernmental receivable	4,702	844	—	5,546
Interest receivable	231	154	4	389
Due from other funds	6,276	—	—	6,276
Due from component units	4,703	—	—	4,703
Inventories	33,792	—	—	33,792
Advances to component units	21,742	—	—	21,742
Notes receivable, net	1,689	38,741	—	40,430
Securities held in trust	45,829	—	—	45,829
Restricted/designated cash and cash equivalents	—	183,479	3,875	187,354
Restricted investments	1,986	370,205	101,402	473,593
Total Assets	$ 1,039,183	$ 597,385	$ 116,596	$ 1,753,164
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	$ 13,581	$ 20,772	$ —	$ 34,353
Accrued payroll	233	—	—	233
Intergovernmental payable	4,301	204	—	4,505
Claims payable	41,335	—	—	41,335
Obligations under securities lending	62,139	4,143	7,198	73,480
Due to other funds	2,849	2	—	2,851
Due to component units	9,835	37,957	—	47,792
Deferred revenue	35,387	1,341	—	36,728
Deposits payable	6	1	—	7
Funds held for others	45,935	—	—	45,935
Total Liabilities	215,601	64,420	7,198	287,219
Fund Balances:				
Nonspendable	33,792	—	93,612	127,404
Restricted	402,099	357,724	11,318	771,141
Committed	387,195	176,552	4,468	568,215
Assigned	496	—	—	496
Unassigned	—	(1,311)	—	(1,311)
Total Fund Balances	823,582	532,965	109,398	1,465,945
Total Liabilities and Fund Balances	$ 1,039,183	$ 597,385	$ 116,596	$ 1,753,164

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

For the Fiscal Year Ended June 30, 2012 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax	$ 2,090	$ —	$ —	$ 2,090
Sales and use tax	8,549	—	—	8,549
Gasoline tax	27,667	—	—	27,667
Insurance tax	16,181	—	—	16,181
Other taxes	142,031	—	—	142,031
Federal funds	99,628	5,293	—	104,921
Local funds	5,685	171	—	5,856
Investment earnings	17,280	659	10,789	28,728
Interest earnings on loans	27	839	—	866
Sales and services	151,752	917	—	152,669
Rental and lease of property	3,008	4	—	3,012
Fees, licenses, and fines	189,996	891	3,281	194,168
Contributions, gifts, and grants	25,634	14,213	16	39,863
Funds escheated	68,207	—	—	68,207
Federal recovery funds	90,356	10,630	—	100,986
Miscellaneous	12,918	2,180	—	15,098
Total revenues	861,009	35,797	14,086	910,892
Expenditures:				
Current:				
General government	46,708	42	—	46,750
Higher education	149,199	357,176	24	506,399
Health and human services	82,973	—	—	82,973
Economic development	101,571	5,841	—	107,412
Environment and natural resources	196,672	11,537	178	208,387
Public safety, corrections, and regulation	240,042	—	—	240,042
Transportation	6	—	—	6
Agriculture	14,389	—	—	14,389
Capital outlay	—	231,688	—	231,688
Debt service:				
Principal retirement	4,947	—	—	4,947
Interest and fees	434	298	—	732
Debt issuance costs	—	4,520	—	4,520
Total expenditures	836,941	611,102	202	1,448,245
Excess revenues over (under) expenditures	24,068	(575,305)	13,884	(537,353)
Other Financing Sources (Uses):				
Special indebtedness issued	—	400,000	—	400,000
Premium on debt issued	—	42,799	—	42,799
Sale of capital assets	273	—	—	273
Insurance recoveries	182	2	—	184
Transfers in	61,050	48,848	—	109,898
Transfers out	(149,409)	(2,256)	(184)	(151,849)
Total other financing sources (uses)	(87,904)	489,393	(184)	401,305
Net change in fund balances	(63,836)	(85,912)	13,700	(136,048)
Fund balances — July 1, as restated	887,418	618,877	95,698	1,601,993
Fund balances — June 30	$ 823,582	$ 532,965	$ 109,398	$ 1,465,945

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NONMAJOR SPECIAL REVENUE FUNDS

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

The following are included in the nonmajor special revenue funds:

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

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2012

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund
Assets						
Cash and cash equivalents	$ 173,436	$ 6,824	$ 48,199	$ 22,178	$ 8,799	$ 43,131
Investments	202,278	—	—	—	—	—
Securities lending collateral	24,731	—	5,026	1,470	912	4,369
Receivables, net:						
Taxes receivable	—	—	1,479	—	—	—
Accounts receivable	—	1,753	581	204	13	6,614
Intergovernmental receivable	—	201	—	3,576	—	—
Interest receivable	81	—	23	9	4	20
Due from other funds	—	2,437	—	—	—	—
Due from component units	3,449	7	—	—	—	—
Inventories	—	27,513	—	1,341	—	—
Advances to component units	21,742	—	—	—	—	—
Notes receivable, net	—	—	648	—	—	—
Securities held in trust	—	—	—	—	—	—
Restricted investments	—	—	—	—	—	—
Total Assets	$ 425,717	$ 38,735	$ 55,956	$ 28,778	$ 9,728	$ 54,134
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	$ 62	$ 2,887	$ 1,782	$ 792	$ —	$ 311
Accrued payroll	—	12	—	55	—	—
Intergovernmental payable	—	—	—	—	—	3,871
Claims payable	41,335	—	—	—	—	—
Obligations under securities lending	25,187	—	5,202	1,520	902	4,559
Due to other funds	—	2,309	—	151	—	40
Due to component units	9,835	—	—	—	—	—
Deferred revenue	5,439	115	—	—	—	—
Deposits payable	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—
Total Liabilities	81,858	5,323	6,984	2,518	902	8,781
Fund Balances:						
Nonspendable	—	27,513	—	1,341	—	—
Restricted	343,859	—	—	24,344	—	—
Committed	—	5,899	48,972	575	8,826	45,353
Assigned	—	—	—	—	—	—
Total Fund Balances	343,859	33,412	48,972	26,260	8,826	45,353
Total Liabilities and Fund Balances	$ 425,717	$ 38,735	$ 55,956	$ 28,778	$ 9,728	$ 54,134

Exhibit C-3

Parks and Recreation Trust Fund	Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
$ 25,274	$ 127,548	$ 181,337	$ 636,726
—	—	310	202,588
2,525	10,056	11,465	60,554
—	672	—	2,151
13	2,491	4,545	16,214
—	87	838	4,702
12	45	37	231
—	3,831	8	6,276
—	—	1,247	4,703
—	—	4,938	33,792
—	—	—	21,742
—	—	1,041	1,689
—	45,829	—	45,829
—	1,986	—	1,986
$ 27,824	$ 192,545	$ 205,766	$ 1,039,183
$ —	$ 2,559	$ 5,188	$ 13,581
—	63	103	233
—	397	33	4,301
—	—	—	41,335
2,574	10,578	11,617	62,139
—	115	234	2,849
—	—	—	9,835
16	30	29,787	35,387
—	—	6	6
—	45,829	106	45,935
2,590	59,571	47,074	215,601
—	—	4,938	33,792
—	1,431	32,465	402,099
25,234	131,543	120,793	387,195
—	—	496	496
25,234	132,974	158,692	823,582
$ 27,824	$ 192,545	$ 205,766	$ 1,039,183

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

For the Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund
Revenues:						
Taxes:						
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use tax	—	—	—	—	—	—
Gasoline tax	—	—	17,552	2,137	—	—
Insurance tax	—	—	—	—	—	—
Other taxes	—	—	—	—	8,586	70,049
Federal funds	—	—	—	18,585	—	—
Local funds	—	—	—	91	—	—
Investment earnings	15,044	—	391	136	120	203
Interest earnings on loans	—	—	—	—	—	—
Sales and services	—	89,704	—	5,002	—	708
Rental and lease of property	—	287	—	50	—	—
Fees, licenses, and fines	—	—	10,845	23,019	4,344	—
Contributions, gifts, and grants	—	61	—	816	—	—
Funds escheated	68,207	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—
Miscellaneous	—	177	—	64	—	—
Total revenues	83,251	90,229	28,788	49,900	13,050	70,960
Expenditures:						
Current:						
General government	—	—	—	—	—	—
Higher education	148,445	—	—	—	—	—
Health and human services	—	—	—	—	—	—
Economic development	—	—	—	—	—	—
Environment and natural resources	—	—	32,902	61,612	5,256	—
Public safety, corrections, and regulation	—	87,694	—	—	—	60,841
Transportation	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Debt service:						
Principal retirement	—	—	—	795	—	—
Interest and fees	—	—	—	326	—	—
Total expenditures	148,445	87,694	32,902	62,733	5,256	60,841
Excess revenues over (under) expenditures	(65,194)	2,535	(4,114)	(12,833)	7,794	10,119
Other Financing Sources (Uses):						
Sale of capital assets	—	41	—	125	—	—
Insurance recoveries	—	—	—	22	—	—
Transfers in	17,500	202	—	19,275	—	—
Transfers out	(17,596)	(4,505)	(5,507)	(5,449)	(13,292)	(33)
Total other financing sources (uses)	(96)	(4,262)	(5,507)	13,973	(13,292)	(33)
Net change in fund balances	(65,290)	(1,727)	(9,621)	1,140	(5,498)	10,086
Fund balances — July 1, as restated	409,149	35,139	58,593	25,120	14,324	35,267
Fund balances — June 30	$ 343,859	$ 33,412	$ 48,972	$ 26,260	$ 8,826	$ 45,353

Exhibit C-4

Parks and Recreation Trust Fund	Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
$ —	$ —	$ 2,090	$ 2,090
—	8,549	—	8,549
—	7,978	—	27,667
—	—	16,181	16,181
25,759	18,938	18,699	142,031
—	—	81,043	99,628
—	—	5,594	5,685
220	552	614	17,280
—	—	27	27
—	15	56,323	151,752
—	565	2,106	3,008
1,435	63,077	87,276	189,996
—	670	24,087	25,634
—	—	—	68,207
—	2,127	88,229	90,356
—	2,405	10,272	12,918
27,414	104,876	392,541	861,009
—	—	46,708	46,708
—	—	754	149,199
—	—	82,973	82,973
—	—	101,571	101,571
11,741	85,161	—	196,672
—	—	91,507	240,042
—	—	6	6
—	—	14,389	14,389
—	1,073	3,079	4,947
—	1	107	434
11,741	86,235	341,094	836,941
15,673	18,641	51,447	24,068
—	21	86	273
—	8	152	182
—	2,067	22,006	61,050
(21,179)	(20,401)	(61,447)	(149,409)
(21,179)	(18,305)	(39,203)	(87,904)
(5,506)	336	12,244	(63,836)
30,740	132,638	146,448	887,418
$ 25,234	$ 132,974	$ 158,692	$ 823,582

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, 2012

(Dollars in Thousands)

	Escheat Fund			Correction Enterprises Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	182	52	(130)	—	—	—
Intra-governmental transactions	—	17,500	17,500	61	221	160	24,584	17,611	(6,973)
Sales and services	—	—	—	90,775	90,018	(757)	—	—	—
Sale, rental, and lease of property	—	—	—	307	325	18	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	14,280	10,713	(3,567)
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	—	—	—
Miscellaneous	202,108	104,250	(97,858)	246	2,417	2,171	110	391	281
Total revenues	202,108	121,750	(80,358)	91,571	93,033	1,462	38,974	28,715	(10,259)
Expenditures:									
Current:									
General government	—	—	—	—	—	—	—	—	—
Higher education	165,946	165,946	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	—	—	—
Environmental and natural resources	—	—	—	—	—	—	40,605	37,537	3,068
Public safety and corrections	—	—	—	98,657	98,493	164	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Total expenditures	165,946	165,946	—	98,657	98,493	164	40,605	37,537	3,068
Excess revenues over (under) expenditures	$ 36,162	(44,196)	$ (80,358)	$(7,086)	(5,460)	$ 1,626	$ (1,631)	(8,822)	$ (7,191)
Fund balances (budgetary basis) at July 1, as restated		424,901			12,285			57,021	
Fund balances (budgetary basis) at June 30		$ 380,705			$ 6,825			$ 48,199	

Exhibit C-5

Wildlife Resources Commission Fund			Natural Heritage Trust Fund			911 Fund			Parks and Recreation Trust Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ 18,956	$ 18,010	$ (946)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	91	91	—	—	—	—	—	—	—	—	—
171	186	15	—	—	—	—	—	—	—	—	—
63,284	61,762	(1,522)	—	586	586	—	—	—	17,520	17,324	(196)
5,284	5,058	(226)	—	—	—	750	702	(48)	—	—	—
128	175	47	—	—	—	—	—	—	—	—	—
22,333	23,274	941	4,190	4,341	151	88,382	69,474	(18,908)	1,425	1,449	24
324	287	(37)	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
28	230	202	109	97	(12)	450	278	(172)	1,794	212	(1,582)
110,508	109,073	(1,435)	4,299	5,024	725	89,582	70,454	(19,128)	20,739	18,985	(1,754)
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
112,936	106,619	6,317	11,758	10,600	1,158	—	—	—	36,099	24,666	11,433
—	—	—	—	—	—	89,582	62,386	27,196	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
795	795	—	—	—	—	—	—	—	—	—	—
592	326	266	—	—	—	—	—	—	—	—	—
114,323	107,740	6,583	11,758	10,600	1,158	89,582	62,386	27,196	36,099	24,666	11,433
$ (3,815)	1,333	$ 5,148	$ (7,459)	(5,576)	$ 1,883	$ —	8,068	$ 8,068	$ (15,360)	(5,681)	$ 9,679
	20,845			14,375			35,063			30,955	
	$ 22,178			$ 8,799			$ 43,131			$ 25,274	

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, 2012 *Exhibit C-5*

(Dollars in Thousands)

	Environment Management Protection Funds			Departmental Funds			Total Nonmajor Special Revenue 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	$ —	$ —	$ —	$ 95,578	$ 81,003	$ (14,575)	$ 114,534	$ 99,013	$ (15,521)
Local funds	—	—	—	12,173	5,596	(6,577)	12,173	5,687	(6,486)
Inter-agency grants and allocations	300	223	(77)	31,580	18,461	(13,119)	32,233	18,922	(13,311)
Intra-governmental transactions	54,639	53,111	(1,528)	87,929	73,234	(14,695)	248,017	241,349	(6,668)
Sales and services	36	16	(20)	60,659	56,309	(4,350)	157,504	152,103	(5,401)
Sale, rental, and lease of property	70	587	517	1,990	2,189	199	2,495	3,276	781
Fees, licenses, and fines	98,450	63,291	(35,159)	75,072	80,000	4,928	304,132	252,542	(51,590)
Contributions, gifts, and grants	178	426	248	31,442	28,110	(3,332)	31,944	28,823	(3,121)
Federal recovery funds	3,170	2,513	(657)	130,196	97,134	(33,062)	133,366	99,647	(33,719)
Miscellaneous	2,413	3,268	855	40,726	38,045	(2,681)	247,984	149,188	(98,796)
Total revenues	159,256	123,435	(35,821)	567,345	480,081	(87,264)	1,284,382	1,050,550	(233,832)
Expenditures:									
Current:									
General government	—	—	—	86,203	56,222	29,981	86,203	56,222	29,981
Higher education	—	—	—	972	757	215	166,918	166,703	215
Health and human services	—	—	—	125,042	100,449	24,593	125,042	100,449	24,593
Economic development	—	—	—	175,948	133,277	42,671	175,948	133,277	42,671
Environmental and natural resources	174,443	121,810	52,633	—	—	—	375,841	301,232	74,609
Public safety and corrections	—	—	—	175,720	149,883	25,837	363,959	310,762	53,197
Agriculture	—	—	—	22,613	20,181	2,432	22,613	20,181	2,432
Debt service:			—						
Principal retirement	1,073	1,073	—	—	—	—	1,868	1,868	—
Interest and fees	996	1	995	4	—	4	1,592	327	1,265
Total expenditures	176,512	122,884	53,628	586,502	460,769	125,733	1,319,984	1,091,021	228,963
Excess revenues over (under) expenditures	$ (17,256)	551	$ 17,807	$ (19,157)	19,312	$ 38,469	$ (35,602)	(40,471)	$ (4,869)
Fund balances (budgetary basis) at July 1, as restated		129,166			163,212			887,823	
Fund balances (budgetary basis) at June 30		$ 129,717			$182,524			$ 847,352	

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, 2012 *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	$ 3,960	$ —	$ —	$ —	$ 3,960
Receivables, net:					
Accounts receivable	2	—	—	—	2
Intergovernmental receivable	844	—	—	—	844
Interest receivable	144	10	—	—	154
Notes receivable, net	38,741	—	—	—	38,741
Restricted/designated cash and cash equivalents	182,743	15	—	721	183,479
Restricted investments	—	362,092	8,113	—	370,205
Total Assets	$ 226,434	$ 362,117	$ 8,113	$ 721	$ 597,385
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 7,482	$ 13,161	$ 129	$ —	$ 20,772
Intergovernmental payable	204	—	—	—	204
Obligations under securities lending	4,143	—	—	—	4,143
Due to other funds	2	—	—	—	2
Due to component units	30,896	5,493	1,568	—	37,957
Deferred revenue	1,341	—	—	—	1,341
Deposits payable	1	—	—	—	1
Total Liabilities	44,069	18,654	1,697	—	64,420
Fund Balances:					
Restricted	7,124	343,463	6,416	721	357,724
Committed	176,552	—	—	—	176,552
Unassigned	(1,311)	—	—	—	(1,311)
Total Fund Balances	182,365	343,463	6,416	721	532,965
Total Liabilities and Fund Balances	$ 226,434	$ 362,117	$ 8,113	$ 721	$ 597,385

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

For the Fiscal Year Ended June 30, 2012 *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	$ 5,293	$ —	$ —	$ —	$ 5,293
Local funds	171	—	—	—	171
Investment earnings	262	386	11	—	659
Interest earnings on loans	839	—	—	—	839
Sales and services	917	—	—	—	917
Rental and lease of property	4	—	—	—	4
Fees, licenses and fines	891	—	—	—	891
Contributions, gifts, and grants	14,213	—	—	—	14,213
Federal recovery funds	10,630	—	—	—	10,630
Miscellaneous	2,180	—	—	—	2,180
Total revenues	35,400	386	11	—	35,797
Expenditures:					
Current:					
General government	—	42	—	—	42
Higher education	26,353	329,747	1,076	—	357,176
Economic development	—	5,841	—	—	5,841
Environment & natural resources	7,147	4,390	—	—	11,537
Capital outlay	79,052	148,605	4,031	—	231,688
Debt service:					
Interest and fees	—	145	153	—	298
Debt issuance costs	—	4,520	—	—	4,520
Total expenditures	112,552	493,290	5,260	—	611,102
Excess revenues over (under) expenditures	(77,152)	(492,904)	(5,249)	—	(575,305)
Other Financing Sources (Uses):					
Special indebtedness issued	—	400,000	—	—	400,000
Premium on debt issued	—	42,799	—	—	42,799
Insurance recoveries	2	—	—	—	2
Transfers in	48,774	—	74	—	48,848
Transfers out	(2,038)	(218)	—	—	(2,256)
Total other financing sources (uses)	46,738	442,581	74	—	489,393
Net change in fund balances	(30,414)	(50,323)	(5,175)	—	(85,912)
Fund balances — July 1	212,779	393,786	11,591	721	618,877
Fund balances — June 30	$ 182,365	$ 343,463	$ 6,416	$ 721	$ 532,965

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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, 2012 *Exhibit C-8*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents	$ —	$ 4,567	$ 4,567
Securities lending collateral	5,905	843	6,748
Receivables, net:			
Interest receivable	—	4	4
Restricted/designated cash and cash equivalents	275	3,600	3,875
Restricted investments	100,820	582	101,402
Total Assets	$ 107,000	$ 9,596	$ 116,596
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending	$ 6,322	$ 876	$ 7,198
Total Liabilities	6,322	876	7,198
Fund Balances:			
Nonspendable	89,464	4,148	93,612
Restricted	11,214	104	11,318
Committed	—	4,468	4,468
Total Fund Balances	100,678	8,720	109,398
Total Liabilities and Fund Balances	$ 107,000	$ 9,596	$ 116,596

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

For the Fiscal Year Ended June 30, 2012 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings	$ 10,716	$ 73	$ 10,789
Fees, licenses, and fines	2,584	697	3,281
Contributions, gifts, and grants	16	—	16
Total revenues	13,316	770	14,086
Expenditures:			
Current:			
Higher education	—	24	24
Environment and natural resources	96	82	178
Total expenditures	96	106	202
Excess revenues over (under) expenditures	13,220	664	13,884
Other Financing Sources (Uses):			
Transfers out	(184)	—	(184)
Total other financing sources (uses)	(184)	—	(184)
Net change in fund balances	13,036	664	13,700
Fund balances — July 1	87,642	8,056	95,698
Fund balances — June 30	$ 100,678	$ 8,720	$ 109,398

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, 2012

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenues:						
Departmental:						
Intra-governmental transactions	$ 1,469	$ —	$ (1,469)	$ 680	$ —	$ (680)
Fees, licenses, and fines	3,305	2,598	(707)	845	702	(143)
Contributions, gifts, and grants	7	16	9	—	—	—
Miscellaneous	3,755	5,330	1,575	283	75	(208)
Total revenues	8,536	7,944	(592)	1,808	777	(1,031)
Expenditures:						
Current:						
Higher education	—	—	—	26	26	—
Environmental and natural resources	2,279	272	2,007	140	81	59
Total expenditures	2,279	272	2,007	166	107	59
Excess revenues over (under) expenditures	$ 6,257	7,672	$ 1,415	$ 1,642	670	$ (972)
Fund balances (budgetary basis) at July 1, 2011		88,527			8,069	
Fund balances (budgetary basis) at June 30, 2012		$ 96,199			$ 8,739	

Exhibit C-10

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
$ 2,149	$ —	$ (2,149)
4,150	3,300	(850)
7	16	9
4,038	5,405	1,367
10,344	8,721	(1,623)
26	26	—
2,419	353	2,066
2,445	379	2,066
$ 7,899	8,342	$ 443
	96,596	
	$ 104,938	

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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, 2012

(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	$ 15,478	$ 5,654	$ 2,240	$ 1,310	$ 3,037	$ 913
Investments	65,614	—	2,929	—	17,571	—
Securities lending collateral	5,368	—	106	—	1,307	75
Receivables:						
Accounts receivable, net	—	180	152	—	—	11
Interest receivable	7	—	—	—	1	—
Premiums receivable	1,372	—	—	—	7	—
Notes receivable	—	—	—	—	—	—
Inventories	—	124	236	12	—	32
Prepaid items	3,090	—	291	—	17	—
Restricted cash and cash equivalents	—	—	330	—	—	—
Total current assets	90,929	5,958	6,284	1,322	21,940	1,031
Noncurrent Assets:						
Investments	—	—	—	—	—	—
Notes receivable	—	—	—	—	—	—
Capital assets-nondepreciable	—	1,379	835	1,087	—	—
Capital assets-depreciable, net	—	5,735	2,186	4,510	—	209
Total noncurrent assets	—	7,114	3,021	5,597	—	209
Total Assets	90,929	13,072	9,305	6,919	21,940	1,240
Liabilities						
Current Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	—	113	235	37	7	22
Accrued payroll	—	54	45	2	—	—
Claims payable	23,895	—	—	—	18,991	—
Obligations under securities lending	5,705	—	114	—	1,357	52
Due to other funds	4	8	—	5	—	15
Unearned revenue	3,913	710	16	—	3,086	—
Deposits payable	—	17	—	—	—	—
Notes payable	—	—	—	—	—	—
Compensated absences	9	19	9	9	—	122
Total current liabilities	33,526	921	419	53	23,441	211
Noncurrent Liabilities:						
Notes payable	—	—	—	—	—	—
Compensated absences	84	293	83	138	—	1,378
Total noncurrent liabilities	84	293	83	138	—	1,378
Total Liabilities	33,610	1,214	502	191	23,441	1,589
Net Assets						
Invested in capital assets, net of related debt	—	7,114	3,021	5,597	—	209
Restricted for:						
Capital outlay	—	—	326	—	—	—
Other purposes	—	—	—	—	—	—
Unrestricted	57,319	4,744	5,456	1,131	(1,501)	(558)
Total Net Assets	$ 57,319	$ 11,858	$ 8,803	$ 6,728	$ (1,501)	$ (349)

Exhibit D-1

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ 1,557	$ 1,725	$ 11,441	$ 1,895	$ 45,250
—	—	21,187	—	107,301
—	—	58	65	6,979
536	90	53	48	1,070
—	—	57	—	65
—	—	—	—	1,379
—	—	7	—	7
—	14	77	54	549
—	—	368	—	3,766
—	—	—	—	330
2,093	1,829	33,248	2,062	166,696
—	—	3,932	—	3,932
—	—	93	—	93
—	550	4,557	339	8,747
95	2,430	16,532	7,348	39,045
95	2,980	25,114	7,687	51,817
2,188	4,809	58,362	9,749	218,513
540	33	1,715	65	2,767
—	1	13	10	125
—	—	—	—	42,886
—	—	64	68	7,360
27	17	3	5	84
—	—	17,075	109	24,909
—	—	—	—	17
—	—	185	—	185
84	21	21	20	314
651	72	19,076	277	78,647
—	—	3,125	—	3,125
941	240	1,392	257	4,806
941	240	4,517	257	7,931
1,592	312	23,593	534	86,578
95	2,981	17,797	7,687	44,501
—	—	—	—	326
—	—	1,142	—	1,142
501	1,516	15,830	1,528	85,966
$ 596	$ 4,497	$ 34,769	$ 9,215	$ 131,935

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

For the Fiscal Year Ended June 30, 2012

(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	$ —	$ 237	$ 723	$ 23	$ —	$ 33
Student tuition and fees, net	—	—	—	—	—	—
Rental and lease earnings	—	5,042	166	947	—	—
Fees, licenses, and fines	—	9,185	2,130	1,835	—	13,610
Insurance premiums	12,890	—	—	—	4,657	—
Miscellaneous	—	6	15	—	—	33
Total operating revenues	12,890	14,470	3,034	2,805	4,657	13,676
Operating Expenses:						
Personal services	631	5,480	1,388	1,433	—	12,542
Supplies and materials	2	865	83	115	—	27
Services	68	4,822	2,374	680	777	559
Cost of goods sold	—	—	286	—	—	—
Depreciation	—	620	98	314	—	4
Claims	23,554	52	—	—	9,930	—
Insurance and bonding	3,717	113	19	73	9	3
Other	—	1,078	237	52	—	872
Total operating expenses	27,972	13,030	4,485	2,667	10,716	14,007
Operating income (loss)	(15,082)	1,440	(1,451)	138	(6,059)	(331)
Nonoperating Revenues (Expenses):						
Noncapital grants	—	—	—	—	—	542
Noncapital gifts, net	—	523	—	—	—	—
Investment earnings (loss)	7,809	—	32	—	1,941	13
Interest and fees	—	—	—	—	—	—
Grants, aid and subsidies	—	—	—	—	—	—
Gain (loss) on sale of equipment	—	—	—	—	—	(16)
Federal recovery funds	—	—	—	—	—	174
Miscellaneous	(10)	62	—	4	(3)	—
Total nonoperating revenues (expenses)	7,799	585	32	4	1,938	713
Income (loss) before contributions and transfers	(7,283)	2,025	(1,419)	142	(4,121)	382
Capital contributions	—	—	164	—	—	—
Transfers in	—	2,400	—	—	2,294	—
Transfers out	—	(848)	—	(3)	—	(288)
Change in net assets	(7,283)	3,577	(1,255)	139	(1,827)	94
Net assets — July 1, as restated	64,602	8,281	10,058	6,589	326	(443)
Net assets — June 30	$ 57,319	$ 11,858	$ 8,803	$ 6,728	$ (1,501)	$ (349)

Exhibit D-2

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ —	$ 2	$ 431	$ 101	$ 1,550
—	—	11	—	11
—	—	—	1,103	7,258
20,786	12,374	23,169	3,532	86,621
—	—	—	—	17,547
12	21	282	3	372
20,798	12,397	23,893	4,739	113,359
9,872	2,495	16,090	2,767	52,698
28	45	935	309	2,409
2,135	8,411	4,532	1,023	25,381
—	—	—	208	494
4	110	930	234	2,314
—	—	33	—	33,569
1	16	37	57	4,045
728	116	850	334	4,267
12,768	11,193	23,407	4,932	125,177
8,030	1,204	486	(193)	(11,818)
—	—	—	—	542
—	—	—	175	698
—	—	195	(3)	9,987
—	—	(16)	—	(16)
(8,570)	—	—	—	(8,570)
—	—	(3)	—	(19)
—	—	—	—	174
—	—	—	9	62
(8,570)	—	176	181	2,858
(540)	1,204	662	(12)	(8,960)
—	—	—	—	164
—	—	—	766	5,460
(150)	(571)	—	(37)	(1,897)
(690)	633	662	717	(5,233)
1,286	3,864	34,107	8,498	137,168
$ 596	$ 4,497	$ 34,769	$ 9,215	$ 131,935

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2012

(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	$ 12,782	$ 14,615	$ 3,057	$ 2,805	$ 4,469	$ 13,636
Payments to suppliers	(4,379)	(5,915)	(2,909)	(887)	(313)	(869)
Payments to employees	(620)	(5,457)	(1,385)	(1,367)	—	(12,566)
Payments for prizes, benefits, and claims	(14,696)	(52)	—	—	(9,052)	—
Other receipts	—	62	—	4	—	33
Other payments	—	(924)	—	(13)	—	(579)
Net cash flows provided (used) by operating activities	(6,913)	2,329	(1,237)	542	(4,896)	(345)
Cash Provided From (Used For) Noncapital Financing Activities:						
Grant receipts	—	—	—	—	—	542
Grants, aid, and subsidies	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	174
Transfers from other funds	—	2,400	—	—	2,294	—
Transfers to other funds	—	(848)	—	(3)	—	(288)
Gifts	—	523	—	—	—	—
Total cash provided from (used for) noncapital financing activities	—	2,075	—	(3)	2,294	428
Cash Provided From (Used For) Capital and Related Financing Activities:						
Acquisition and construction of capital assets	—	(199)	(432)	—	—	(70)
Proceeds from the sale of capital assets	—	—	—	—	—	—
Proceeds from capital debt	—	—	—	—	—	—
Capital contributions	—	—	52	—	—	—
Principal paid on capital debt	—	—	—	—	—	—
Interest paid on capital debt	—	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities	—	(199)	(380)	—	—	(70)
Cash Provided From (Used For) Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	1,947	—	—	—
Purchase of non-State Treasurer investments	—	—	(83)	—	—	—
Redemptions from State Treasurer investment pool	10,000	—	—	—	—	—
Investment earnings	118	—	83	—	33	13
Total cash provided from (used for) investment activities	10,118	—	1,947	—	33	13
Net increase (decrease) in cash and cash equivalents	3,205	4,205	330	539	(2,569)	26
Cash and cash equivalents at July 1, as restated	12,273	1,449	2,240	771	5,606	887
Cash and cash equivalents at June 30	$ 15,478	$ 5,654	$ 2,570	$ 1,310	$ 3,037	$ 913
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:						
Operating income (loss)	$ (15,082)	$ 1,440	$ (1,451)	$ 138	$ (6,059)	$ (331)
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation	—	620	98	314	—	4
Nonoperating miscellaneous income (expense)	—	62	—	4	—	—
(Increases) decreases in assets:						
Receivables	(313)	15	14	—	9	(7)
Inventories	—	3	33	(2)	—	—
Prepaid items	(582)	—	(29)	—	466	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities	8,846	39	162	18	885	7
Due to other funds	2	(1)	—	4	—	4
Compensated absences	11	23	2	66	—	(22)
Unearned revenue	205	130	9	—	(197)	—
Deposits payable	—	(2)	(75)	—	—	—
Total cash provided from (used for) operations	$ (6,913)	$ 2,329	$ (1,237)	$ 542	$ (4,896)	$ (345)
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 2,853	$ —	$ —	$ —	$ 1,046	$ —
Change in fair value of investments	4,830	—	(30)	—	861	—
Increase in receivables related to nonoperating income	—	—	112	—	—	—
Change in securities lending collateral	(1,625)	—	(19)	—	502	2

Exhibit D-3

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
$ 21,212	$ 12,352	$ 23,823	$ 4,783	$ 113,534
(2,029)	(8,549)	(714)	(1,639)	(28,203)
(9,871)	(2,495)	(14,313)	(2,737)	(50,811)
—	—	—	—	(23,800)
12	21	206	—	338
(504)	(35)	(7,200)	(281)	(9,536)
8,820	1,294	1,802	126	1,522
—	—	—	—	542
(14,629)	—	—	—	(14,629)
—	—	—	—	174
—	—	—	766	5,460
(150)	(571)	—	(37)	(1,897)
—	—	—	175	698
(14,779)	(571)	—	904	(9,652)
—	—	(1,173)	(13)	(1,887)
—	—	14	4	18
—	—	51	—	51
—	—	—	—	52
—	—	(1,167)	—	(1,167)
—	—	(34)	—	(34)
—	—	(2,309)	(9)	(2,967)
—	—	9,781	—	11,728
—	—	(7,461)	—	(7,544)
—	—	4	—	10,004
—	—	107	—	354
—	—	2,431	—	14,542
(5,959)	723	1,924	1,021	3,445
7,516	1,002	9,517	874	42,135
$ 1,557	$ 1,725	$ 11,441	$ 1,895	$ 45,580
$ 8,030	$ 1,204	$ 486	$ (193)	$ (11,818)
4	110	930	234	2,314
—	—	—	5	71
426	(24)	30	14	164
—	1	(28)	(21)	(14)
—	—	(85)	—	(230)
359	8	295	30	10,649
—	(5)	2	1	7
1	—	61	31	173
—	—	111	25	283
—	—	—	—	(77)
$ 8,820	$ 1,294	$ 1,802	$ 126	$ 1,522
$ —	$ —	$ —	$ —	$ 3,899
—	—	117	3	5,781
—	—	—	—	112
—	—	4	63	(1,073)

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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, 2012

(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	$ 2,632	$ 29,387	$ 34,998	$ —	$ 2,123
Investments	—	28,413	—	—	—
Securities lending collateral	—	4,720	—	—	—
Receivables:					
Accounts receivable, net	2,468	—	2,123	123	1,862
Interest receivable	—	13	—	—	—
Premiums receivable	—	12	—	—	—
Due from other funds	3,771	—	3,129	17	96
Due from component units	—	—	339	—	—
Inventories	—	—	146	275	—
Prepaid items	—	—	—	—	—
Total current assets	8,871	62,545	40,735	415	4,081
Noncurrent Assets:					
Capital assets-nondepreciable	—	—	288	—	—
Capital assets-depreciable, net	—	—	26,454	343	—
Total noncurrent assets	—	—	26,742	343	—
Total Assets	8,871	62,545	67,477	758	4,081
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	—	6,626	1,574	18	1
Accrued payroll	—	—	2	6	1,386
Intergovernmental payable	—	—	—	—	—
Claims payable	—	1,553	—	—	—
Obligations under securities lending	—	4,929	—	—	—
Due to other funds	—	—	29	455	4
Unearned revenue	—	8,957	—	—	—
Capital leases payable	—	—	—	—	—
Compensated absences	—	19	10	13	5
Total current liabilities	—	22,084	1,615	492	1,396
Noncurrent Liabilities:					
Capital leases payable	—	—	—	—	—
Compensated absences	—	252	139	169	49
Total noncurrent liabilities	—	252	139	169	49
Total Liabilities	—	22,336	1,754	661	1,445
Net Assets					
Invested in capital assets, net of related debt	—	—	26,742	343	—
Unrestricted	8,871	40,209	38,981	(246)	2,636
Total Net Assets	$ 8,871	$ 40,209	$ 65,723	$ 97	$ 2,636

Exhibit E-1

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 22,975	$ 9,685	$ 429	$ 102,229
—	—	—	28,413
—	—	—	4,720
966	6,901	138	14,581
—	—	—	13
—	—	—	12
5,904	3,186	4	16,107
18	311	—	668
12	—	—	433
685	124	—	809
30,560	20,207	571	167,985
3,089	—	19	3,396
49,999	4,942	85	81,823
53,088	4,942	104	85,219
83,648	25,149	675	253,204
792	17	782	9,810
1	3	—	1,398
—	—	3	3
—	—	—	1,553
—	—	—	4,929
50	318	72	928
227	180	—	9,364
—	810	—	810
311	119	6	483
1,381	1,447	863	29,278
—	447	—	447
3,454	1,318	85	5,466
3,454	1,765	85	5,913
4,835	3,212	948	35,191
53,088	3,685	104	83,962
25,725	18,252	(377)	134,051
$ 78,813	$ 21,937	$ (273)	$ 218,013

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

For the Fiscal Year Ended June 30, 2012

(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	75,474	—	43,761	3,356	24,671
Rental and lease earnings	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—
Insurance premiums	—	19,606	—	—	—
Miscellaneous	—	—	47	—	—
Total operating revenues	75,474	19,606	43,808	3,356	24,671
Operating Expenses:					
Personal services	—	1,794	2,123	2,833	23,666
Supplies and materials	—	3	19,923	51	21
Services	75,055	117	2,748	957	80
Cost of goods sold	—	—	481	—	—
Depreciation	—	—	11,843	68	—
Claims	—	2,351	—	—	—
Insurance and bonding	—	18,962	1,442	1	—
Other	—	97	3	64	26
Total operating expenses	75,055	23,324	38,563	3,974	23,793
Operating income (loss)	419	(3,718)	5,245	(618)	878
Nonoperating Revenues (Expenses):					
Noncapital grants	—	—	—	—	—
Investment earnings	—	3,299	—	—	—
Interest and fees	—	—	—	—	—
Insurance recoveries	—	—	128	—	—
Gain (loss) on sale of equipment	—	—	1,204	(24)	—
Miscellaneous	—	(9)	8	—	—
Total nonoperating revenues (expenses)	—	3,290	1,340	(24)	—
Income (loss) before contributions and transfers	419	(428)	6,585	(642)	878
Capital contributions	—	—	179	—	—
Transfers in	1,347	—	—	429	—
Transfers out	—	—	(429)	—	—
Change in net assets	1,766	(428)	6,335	(213)	878
Net assets — July 1, as restated	7,105	40,637	59,388	310	1,758
Net assets — June 30	$ 8,871	$ 40,209	$ 65,723	$ 97	$ 2,636

Exhibit E-2

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 102	$ —	$ —	$ 102
81,668	84,102	2,061	315,093
—	—	28	28
—	—	30	30
—	—	—	19,606
—	75	90	212
81,770	84,177	2,209	335,071
30,441	16,531	1,543	78,931
192	48	83	20,321
14,146	54,804	323	148,230
—	—	152	633
9,041	2,513	14	23,479
—	—	—	2,351
133	49	22	20,609
41,660	10,992	40	52,882
95,613	84,937	2,177	347,436
(13,843)	(760)	32	(12,365)
467	—	—	467
—	—	—	3,299
(27)	(73)	—	(100)
—	—	—	128
(14)	—	—	1,166
(1,845)	—	—	(1,846)
(1,419)	(73)	—	3,114
(15,262)	(833)	32	(9,251)
—	6	—	185
33	—	—	1,809
(28)	(27)	—	(484)
(15,257)	(854)	32	(7,741)
94,070	22,791	(305)	225,754
$ 78,813	$ 21,937	$ (273)	$ 218,013

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2012

(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	$ 11,532	$ 10,596	$ 4,342	$ 615	$ —
Receipts from federal agencies	—	—	—	—	—
Receipts from other funds	62,200	10,575	39,214	3,000	24,755
Payments to suppliers	(75,055)	(18,366)	(17,667)	(301)	(39)
Payments to employees	—	(1,785)	(2,114)	(2,850)	(23,408)
Payments for benefits and claims	—	(1,714)	—	—	—
Payments to other funds	—	(568)	(6,419)	(892)	(61)
Other receipts	—	—	55	—	—
Other payments	—	—	(1)	(1)	(25)
Net cash flows provided (used) by operating activities	(1,323)	(1,262)	17,410	(429)	1,222
Cash Provided From (Used For) Noncapital Financing Activities:					
Grant receipts	—	—	—	—	—
Interest expense and issuance cost	—	—	—	—	—
Transfers from other funds	1,347	—	—	429	—
Transfers to other funds	—	—	(429)	—	—
Total cash provided from (used for) noncapital financing activities	1,347	—	(429)	429	—
Cash Provided From (Used For) Capital and Related Financing Activities:					
Acquisition and construction of capital assets	—	—	(2,255)	—	—
Proceeds from the sale of capital assets	—	—	1,945	—	—
Principal paid on capital debt	—	—	—	—	—
Interest paid on capital debt	—	—	—	—	—
Insurance recoveries	—	—	128	—	—
Total cash provided from (used for) capital and related financing activities	—	—	(182)	—	—
Cash Provided From (Used For) Investment Activities:					
Investment earnings	—	251	—	—	—
Total cash provided from (used for) investment activities	—	251	—	—	—
Net increase (decrease) in cash and cash equivalents	24	(1,011)	16,799	—	1,222
Cash and cash equivalents at July 1	2,608	30,398	18,199	—	901
Cash and cash equivalents at June 30	$ 2,632	$ 29,387	$ 34,998	$ —	$ 2,123
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ 419	$ (3,718)	$ 5,245	$ (618)	$ 878
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	—	—	11,843	68	—
Nonoperating miscellaneous income (expense)	—	—	8	—	—
(Increases) decreases in assets:					
Receivables	(1,060)	42	(709)	259	117
Due from other funds	(682)	—	467	—	(32)
Due from component units	—	—	38	—	—
Inventories	—	—	(18)	(69)	—
Prepaid items	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	—	881	521	(21)	248
Due to other funds	—	—	7	(34)	2
Compensated absences	—	10	8	(14)	9
Unearned revenue	—	1,523	—	—	—
Total cash provided from (used for) operations	$ (1,323)	$ (1,262)	$ 17,410	$ (429)	$ 1,222
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ 1,692	$ —	$ —	$ —
Donated or transferred assets	—	—	179	—	—
Assets acquired through the assumption of a liability	—	—	—	—	—
Change in fair value of investments	—	1,360	—	—	—
Change in securities lending collateral	—	(111)	—	—	—

Exhibit E-3

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 750	$ 19,083	$ 681	$ 47,599
102	—	—	102
88,544	64,969	1,316	294,573
(41,887)	(64,913)	(311)	(218,539)
(31,098)	(16,116)	(1,573)	(78,944)
—	—	—	(1,714)
(12,855)	(883)	(291)	(21,969)
5	75	90	225
(2,241)	(451)	(7)	(2,726)
1,320	1,764	(95)	18,607
467	—	—	467
(27)	(16)	—	(43)
33	—	—	1,809
(28)	(27)	—	(484)
445	(43)	—	1,749
(554)	(1,106)	—	(3,915)
—	—	—	1,945
—	(1,086)	—	(1,086)
—	(57)	—	(57)
—	—	—	128
(554)	(2,249)	—	(2,985)
—	—	—	251
—	—	—	251
1,211	(528)	(95)	17,622
21,764	10,213	524	84,607
$ 22,975	$ 9,685	$ 429	$ 102,229
$ (13,843)	$ (760)	$ 32	$ (12,365)
9,041	2,513	14	23,479
(1,845)	—	—	(1,837)
2,403	(796)	(121)	135
5,454	643	(2)	5,848
(4)	(78)	—	(44)
1	—	—	(86)
591	(123)	—	468
442	(442)	4	1,633
(35)	216	7	163
(658)	411	(29)	(263)
(227)	180	—	1,476
$ 1,320	$ 1,764	$ (95)	$ 18,607
$ —	$ —	$ —	$ 1,692
—	6	—	185
—	984	—	984
—	—	—	1,360
—	—	—	(111)

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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, 2012 *Exhibit F-1*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Assets			
Cash and cash equivalents	$ 12,491	$ —	$ 12,491
Investments:			
State Treasurer investment pool	933,730	76,214	1,009,944
Securities lending collateral	88,836	11	88,847
Receivables:			
Interest receivable	2,050	—	2,050
Total Assets	1,037,107	76,225	1,113,332
Liabilities			
Obligations under securities lending	93,323	11	93,334
Total Liabilities	93,323	11	93,334
Net Assets			
Held in trust for:			
Pool participants	943,784	76,214	1,019,998
Total Net Assets	$ 943,784	$ 76,214	$ 1,019,998

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS INVESTMENT TRUST FUNDS

For the Fiscal Year Ended June 30, 2012 *Exhibit F-2*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Additions:			
Investment Income:			
Investment earnings	$ 7,656	$ 1,815	$ 9,471
Less investment expenses	(323)	(316)	(639)
Net investment income	7,333	1,499	8,832
Pool share transactions:			
Reinvestment of dividends	7,333	1,499	8,832
Net share purchases/(redemptions)	127,539	4,501	132,040
Net pool share transactions	134,872	6,000	140,872
Total additions	142,205	7,499	149,704
Deductions:			
Distributions paid and payable	7,333	1,499	8,832
Total deductions	7,333	1,499	8,832
Change in net assets	134,872	6,000	140,872
Net assets — July 1	808,912	70,214	879,126
Net assets — June 30	$ 943,784	$ 76,214	$ 1,019,998

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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, 2012 *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	$ 482	$ 108,451	$ 4,482	$ 113,415
Investments:				
U.S. government securities	—	526	—	526
Certificates of deposit	—	56,535	—	56,535
State Treasurer investment pool	—	—	8,800	8,800
Securities lending collateral	49	—	453	502
Receivables:				
Interest receivable	—	—	2	2
Sureties	869,382	—	—	869,382
Total Assets	869,913	165,512	13,737	1,049,162
Liabilities				
Obligations under securities lending	52	—	481	533
Total Liabilities	52	—	481	533
Net Assets				
Held in trust for:				
Individuals, organizations, and other governments	869,861	165,512	13,256	1,048,629
Total Net Assets	$ 869,861	$ 165,512	$ 13,256	$ 1,048,629

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

For the Fiscal Year Ended June 30, 2012 *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	$ 4,119	$ 138,875	$ 66	$ 143,060
Total contributions	4,119	138,875	66	143,060
Investment Income:				
Investment earnings	(1)	3,561	30	3,590
Less investment expenses	—	—	(1)	(1)
Net investment income	(1)	3,561	29	3,589
Total additions	4,118	142,436	95	146,649
Deductions:				
Payments in accordance with trust arrangements	11,381	146,789	150	158,320
Total deductions	11,381	146,789	150	158,320
Change in net assets	(7,263)	(4,353)	(55)	(11,671)
Net assets — July 1	877,124	169,865	13,311	1,060,300
Net assets — June 30	$ 869,861	$ 165,512	$ 13,256	$ 1,048,629

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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, 2012

(Dollars in Thousands)

	Balance, July 1, 2011	Additions	Deductions	Balance, June 30, 2012
Local Sales Tax Collections				
Assets				
Cash and cash equivalents	$ 349,194	$ 2,266,105	$ (2,239,396)	$ 375,903
Receivables:				
Taxes receivable	123,800	119,700	(123,800)	119,700
Due from other funds	20,678	26,778	(20,677)	26,779
Total Assets	$ 493,672	$ 2,412,583	$ (2,383,873)	$ 522,382
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 493,672	$ 2,412,584	$ (2,383,874)	$ 522,382
Total Liabilities	$ 493,672	$ 2,412,584	$ (2,383,874)	$ 522,382
Clerks of Court				
Assets				
Cash and cash equivalents	$ 92,957	$ 2,044,024	$ (2,040,713)	$ 96,268
Receivables:				
Accounts receivable	733	5,567	(5,922)	378
Sureties	95,174	53,301	(50,587)	97,888
Total Assets	$ 188,864	$ 2,102,892	$ (2,097,222)	$ 194,534
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 5,354	$ 113,463	$ (113,766)	$ 5,051
Funds held for others	183,510	681,261	(675,288)	189,483
Total Liabilities	$ 188,864	$ 794,724	$ (789,054)	$ 194,534
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents	$ 3,648,531	$ 332,497	$ —	$ 3,981,028
Investments:				
State Treasurer investment pool	36,264	4,409	—	40,673
Securities lending collateral	313,924	115,817	(18,493)	411,248
Total Assets	$ 3,998,719	$ 452,723	$ (18,493)	$ 4,432,949
Liabilities				
Obligations under securities lending	$ 327,800	$ 101,941	$ —	$ 429,741
Funds held for others	3,670,919	352,017	(19,728)	4,003,208
Total Liabilities	$ 3,998,719	$ 453,958	$ (19,728)	$ 4,432,949
Insurers in Receivership				
Assets				
Cash and cash equivalents	$ 103,185	$ 3,620	$ (58,564)	$ 48,241
Investments:				
Corporate bonds	2,578	6,289	(1,722)	7,145
Corporate stocks	—	2,168	—	2,168
Receivables:				
Accounts receivable	9,628	1,103	(2,882)	7,849
Total Assets	$ 115,391	$ 13,180	$ (63,168)	$ 65,403
Liabilities				
Funds held for others	$ 115,391	$ 13,180	$ (63,168)	$ 65,403
Total Liabilities	$ 115,391	$ 13,180	$ (63,168)	$ 65,403

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2012 *Exhibit F-5*

(Dollars in Thousands)

	Balance, July 1, 2011	Additions	Deductions	Balance, June 30, 2012
Departmental Funds				
Assets				
Cash and cash equivalents	$ 31,446	$ 1,443,332	$ (1,411,992)	$ 62,786
Investments:				
Certificates of deposit	325	200	(200)	325
Securities lending collateral	2,476	710	—	3,186
Receivables:				
Accounts receivable	3,127	7,509	(3,125)	7,511
Total Assets	$ 37,374	$ 1,451,751	$ (1,415,317)	$ 73,808
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 544	$ 7,281	$ (7,440)	$ 385
Intergovernmental payable	3,123	323,232	(292,848)	33,507
Obligations under securities lending	2,592	742	—	3,334
Deposits payable	2,133	5,812	(5,976)	1,969
Funds held for others	28,982	127,977	(122,346)	34,613
Total Liabilities	$ 37,374	$ 465,044	$ (428,610)	$ 73,808
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 4,225,313	$ 6,089,578	$ (5,750,665)	$ 4,564,226
Investments:				
Corporate bonds	2,578	6,289	(1,722)	7,145
Corporate stocks	—	2,168	—	2,168
Certificates of deposit	325	200	(200)	325
State Treasurer investment pool	36,264	4,409	—	40,673
Securities lending collateral	316,400	116,527	(18,493)	414,434
Receivables:				
Taxes receivable	123,800	119,700	(123,800)	119,700
Accounts receivable	13,488	14,179	(11,929)	15,738
Due from other funds	20,678	26,778	(20,677)	26,779
Sureties	95,174	53,301	(50,587)	97,888
Total Assets	$ 4,834,020	$ 6,433,129	$ (5,978,073)	$ 5,289,076
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 544	$ 7,281	$ (7,440)	$ 385
Intergovernmental payable	502,149	2,849,279	(2,790,488)	560,940
Obligations under securities lending	330,392	102,683	—	433,075
Deposits payable	2,133	5,812	(5,976)	1,969
Funds held for others	3,998,802	1,174,435	(880,530)	4,292,707
Total Liabilities	$ 4,834,020	$ 4,139,490	$ (3,684,434)	$ 5,289,076

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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, 2012

(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	$ 4,065	$ 13,203	$ 7,312	$ 23,543	$ 1,408	$ 91,689
Investments	9,792	—	—	539	1,240	74,867
Receivables, net	7,405	68	268	1,605	560	703
Due from component units	—	—	—	—	—	—
Due from primary government	—	—	1,559	—	—	—
Inventories	599	1	—	—	—	—
Prepaid items	1,203	—	—	136	107	63
Notes receivable, net	—	3,945	—	3,002	—	3,115
Deferred charges	995	—	—	—	—	—
Restricted/designated cash and cash equiv	3,562	—	1,054	—	431	—
Restricted investments	—	—	—	—	233	—
Deferred outflow of resources	206	—	—	—	—	—
Capital assets-nondepreciable	73,361	—	32,098	—	—	—
Capital assets-depreciable, net	221,987	31	228,774	12,430	135	3,284
Total Assets	323,175	17,248	271,065	41,255	4,114	173,721
Liabilities						
Accounts payable and accrued liabilities	3,003	3	1,337	8,069	855	801
Interest payable	880	—	96	—	—	—
Due to primary government	24	—	3,449	—	—	—
Unearned revenue	323	—	17	—	551	12,229
Advance from primary government	—	—	24,671	—	—	—
Deposits payable	—	—	—	—	—	—
Funds held for others	—	2,430	3	—	66	—
Hedging derivatives liability	206	—	—	—	—	—
Long-term liabilities:						
Due within one year	2,339	1	448	16	129	—
Due in more than one year	97,624	21	7,265	56	—	126
Total Liabilities	104,399	2,455	37,286	8,141	1,601	13,156
Net Assets						
Invested in capital assets, net of related debt	196,511	31	228,226	12,358	135	3,284
Restricted for:						
Expendable:						
Health and human services	—	—	—	—	37	—
Economic development	3,562	—	1,054	998	—	149,900
Unrestricted	18,703	14,762	4,499	19,758	2,341	7,381
Total Net Assets	$ 218,776	$ 14,793	$ 233,779	$ 33,114	$ 2,513	$ 160,565

Exhibit G-1

Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Health Insurance Risk Pool	Total
$ 2,283	$ 2,137	$ 9,641	$ 155,281
844	—	28,367	115,649
136	2,883	2,931	16,559
247	—	—	247
—	—	—	1,559
17	—	—	617
36	39	560	2,144
576	—	—	10,638
—	—	—	995
—	65,205	—	70,252
—	—	—	233
—	—	—	206
67	15,370	—	120,896
841	75,268	4	542,754
5,047	160,902	41,503	1,038,030
64	1,917	15,496	31,545
—	—	—	976
—	—	—	3,473
99	—	1,559	14,778
—	—	—	24,671
—	62	—	62
—	—	8	2,507
—	—	—	206
24	—	—	2,957
18	—	—	105,110
205	1,979	17,063	186,285
908	90,638	4	532,095
—	—	—	37
1,058	65,188	—	221,760
2,876	3,097	24,436	97,853
$ 4,842	$ 158,923	$ 24,440	$ 851,745

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2012

(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	$ 40,042	$ 3,118	$ 13,592	$ 19,710	$ 99,567	$ 61,702
Program revenues:						
Charges for services	39,553	472	2,054	212	—	—
Operating grants and contributions:						
State aid - program	—	—	—	330	91,958	29,628
Other operating grants and contributions	144	156	238	1,122	1,186	7,394
Capital grants and contributions:						
State capital aid	116	—	—	—	—	—
Other capital grants and contributions	739	—	4,238	—	—	—
Net program (expense) revenue	510	(2,490)	(7,062)	(18,046)	(6,423)	(24,680)
Non-tax general revenues:						
State aid - general	—	—	1,152	17,551	4,948	1,302
Miscellaneous	—	—	—	134	189	559
Total non-tax general revenues	—	—	1,152	17,685	5,137	1,861
Change in net assets	510	(2,490)	(5,910)	(361)	(1,286)	(22,819)
Net assets — July 1, as restated	218,266	17,283	239,689	33,475	3,799	183,384
Net assets — June 30	$ 218,776	$ 14,793	$ 233,779	$ 33,114	$ 2,513	$ 160,565

Exhibit G-2

Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Health Insurance Risk Pool	Total
$ 3,838	$ 15,024	$ 82,258	$ 338,851
56	16,485	65,327	124,159
—	—	—	121,916
944	800	188	12,172
—	2,667	—	2,783
17	—	—	4,994
(2,821)	4,928	(16,743)	(72,827)
2,440	—	3,855	31,248
471	3,418	—	4,771
2,911	3,418	3,855	36,019
90	8,346	(12,888)	(36,808)
4,752	150,577	37,328	888,553
$ 4,842	$ 158,923	$ 24,440	$ 851,745

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2012 *Exhibit G-3*

(Dollars in Thousands)

	State Health Plan
Cash Flows From Operating Activities:	
Receipts from customers	$ 2,761,010
Payments to suppliers	(159,889)
Payments to employees	(3,311)
Payments for prizes, benefits, and claims	(2,465,388)
Other payments	(148)
Net cash flows provided (used) by operating activities	132,274
Cash Provided From (Used For) Noncapital Financing Activities:	
Grant receipts	99,746
Principal payments on borrowing	(2,631)
Total cash provided from (used for) noncapital financing activities	97,115
Cash Provided From (Used For) Investment Activities:	
Investment earnings	3,016
Total cash provided from (used for) investment activities	3,016
Net increase (decrease) in cash and cash equivalents	232,405
Cash and cash equivalents at July 1	269,946
Cash and cash equivalents at June 30	$ 502,351
Reconciliation of Operating Income (Loss) to Net Cash Provided From (Used For) Operating Activities:	
Operating income	$ 73,815
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	4
(Increases) decreases in assets:	
Receivables	33,114
Increases (decreases) in liabilities:	
Accounts payable and accrued liabilities	(2,968)
Due to primary government	2
Compensated absences	(14)
Unearned revenue	8,478
Medical claims payable	19,843
Total cash provided from (used for) operations	$ 132,274

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 2003-2012

(Dollars in Thousands)

	2012	2011	2010	2009	2008
Governmental Activities:					
Invested in capital assets, net of related debt....	$ 38,699,112	$ 37,338,472	$ 35,658,528	$ 34,101,091	$ 30,984,578
Restricted...	728,971	730,021	704,715	714,014	877,915
Unrestricted..	(3,749,468)	(3,792,148)	(4,160,273)	(4,427,748)	(1,856,140)
Total Governmental Activities Net Assets [1]........	$ 35,678,615	$ 34,276,345	$ 32,202,970	$ 30,387,357	$ 30,006,353
Business-type Activities:					
Invested in capital assets, net of related debt....	$ 391,878	$ 294,172	$ 173,375	$ 73,924	$ 32,063
Restricted...	1,468	3,131	1,081,220	1,003,613	1,773,018
Unrestricted..	(661,630)	(766,888)	(1,626,663)	(201,590)	91,219
Total Business-type Activities Net Assets............	$ (268,284)	$ (469,585)	$ (372,068)	$ 875,947	$ 1,896,300
Primary Government:					
Invested in capital assets, net of related debt....	$ 39,090,990	$ 37,632,644	$ 35,831,903	$ 34,175,015	$ 31,016,641
Restricted...	730,439	733,152	1,785,935	1,717,627	2,650,933
Unrestricted..	(4,411,098)	(4,559,036)	(5,786,936)	(4,629,338)	(1,764,921)
Total Primary Government Net Assets................	$ 35,410,331	$ 33,806,760	$ 31,830,902	$ 31,263,304	$ 31,902,653

[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

2007	2006	2005	2004	2003
$ 29,715,168	$ 28,052,926	$ 26,434,617	$ 24,706,355	$ 23,449,373
1,094,352	890,602	1,314,397	1,474,405	1,071,626
(993,478)	(1,310,486)	(3,839,972)	(3,199,354)	(2,210,477)
$ 29,816,042	$ 27,633,042	$ 23,909,042	$ 22,981,406	$ 22,310,522
$ 26,673	$ 26,975	$ 44,007	$ 40,277	$ 38,450
1,612,943	1,286,477	970,615	665,547	863,426
74,860	75,108	76,988	48,295	56,448
$ 1,714,476	$ 1,388,560	$ 1,091,610	$ 754,119	$ 958,324
$ 29,741,841	$ 28,079,901	$ 26,478,624	$ 24,746,632	$ 23,487,823
2,707,295	2,177,079	2,285,012	2,139,952	1,935,052
(918,618)	(1,235,378)	(3,762,984)	(3,151,059)	(2,154,029)
$ 31,530,518	$ 29,021,602	$ 25,000,652	$ 23,735,525	$ 23,268,846

CHANGES IN NET ASSETS

For the Fiscal Years 2003-2012

(Dollars in Thousands)

		2012	2011	2010	2009	2008
Expenses						
Governmental Activities:						
General government		$ 937,353	$ 1,209,923	$ 1,065,584	$ 1,429,407	$ 1,232,088
Primary and secondary education		9,760,909	10,024,775	9,830,183	10,079,691	10,631,920
Higher education		4,238,695	4,350,475	4,232,266	3,951,862	4,207,410
Health and human services		17,759,093	16,859,438	16,762,910	16,172,213	14,951,585
Economic development		667,106	744,703	916,224	636,431	746,471
Environment and natural resources		470,965	596,227	526,178	717,666	753,909
Public safety, corrections, and regulation		2,976,448	2,729,418	2,616,888	2,741,308	2,627,007
Transportation		2,403,266	2,177,062	1,998,234	138,007	1,941,207
Agriculture		188,985	114,275	118,847	110,268	119,297
Interest on long-term debt		282,542	306,696	281,058	289,211	304,020
Total Governmental Activities Expenses		39,685,362	39,112,992	38,348,372	36,266,064	37,514,914
Business-type Activities:						
Unemployment Compensation		3,283,900	4,420,762	5,568,561	3,255,448	1,002,866
N.C. State Lottery	[2]	1,141,941	1,028,536	994,168	877,403	712,718
EPA Revolving Loan		14,026	42,897	30,940	7,868	12,454
N.C. Turnpike Authority	[5]	17,565	4,940	4,990	3,847	—
Regulatory programs	[3]	69,980	80,454	67,330	37,644	34,791
Insurance programs		38,701	36,885	13,118	14,986	17,556
North Carolina State Fair		13,030	13,595	12,794	13,803	12,828
Other business-type activities		12,084	9,148	9,563	7,324	6,364
Total Business-type Activities Expenses		4,591,227	5,637,217	6,701,464	4,218,323	1,799,577
Total Primary Government Expenses		$ 44,276,589	$ 44,750,209	$ 45,049,836	$ 40,484,387	$ 39,314,491
Program Revenues:						
Governmental Activities:						
Charges for Services:						
Transportation		$ 685,596	$ 709,064	$ 705,025	$ 740,353	$ 777,059
Public safety, corrections, and regulation		594,377	540,280	511,912	510,159	501,837
General government		218,011	195,286	356,602	329,507	365,920
Other activities		600,744	631,464	502,204	535,100	536,419
Operating grants and contributions		15,599,541	15,632,256	15,837,802	14,005,529	12,301,356
Capital grants and contributions		977,961	1,198,549	711,433	1,035,742	826,646
Total Governmental Activities Program Revenues		18,676,230	18,906,899	18,624,978	17,156,390	15,309,237
Business-type Activities:						
Charges for services:						
Unemployment Compensation		1,473,576	1,294,104	1,045,288	1,076,294	1,091,856
N.C. State Lottery	[2]	1,601,837	1,464,639	1,424,458	1,288,102	1,053,131
EPA Revolving Loan		23,366	20,388	19,874	17,370	17,297
N.C. Turnpike Authority	[5]	664	—	—	—	—
Regulatory programs	[3]	70,764	80,008	71,355	33,982	37,163
Insurance programs		17,547	16,046	16,320	17,208	16,991
North Carolina State Fair		14,470	14,915	12,639	12,520	15,029
Other business-type activities		10,578	10,771	8,678	8,365	6,498
Operating grants and contributions		1,966,030	2,998,116	3,251,109	1,110,849	83,695
Capital grants and contributions		15,436	11,687	7,771	41,398	6,589
Total Business-type Activities Program Revenues		5,194,268	5,910,674	5,857,492	3,606,088	2,328,249
Total Primary Government Program Revenues		$ 23,870,498	$ 24,817,573	$ 24,482,470	$ 20,762,478	$ 17,637,486
Net (Expense) Revenue						
Governmental Activities		$ (21,009,132)	$ (20,206,093)	$ (19,723,394)	$ (19,109,674)	$ (22,205,677)
Business-type Activities		603,041	273,457	(843,972)	(612,235)	528,672
Total Primary Government Net Expense		$ (20,406,091)	$ (19,932,636)	$ (20,567,366)	$ (19,721,909)	$ (21,677,005)

Table 2

2007	2006	2005	2004	2003
$ 1,264,132	$ 1,039,513	$ 917,209	$ 807,248	$ 773,835
9,126,169	8,215,445	7,699,208	7,223,766	6,865,921
4,500,010	3,472,024	3,576,384	3,140,794	2,814,375
14,117,426	13,491,119	13,375,794	11,729,904	10,614,411
624,106	647,434	625,561	536,055	489,062
672,726	676,049	570,241	599,575	537,540
2,465,974	2,304,900	2,125,385	2,093,404	2,034,225
2,019,942	1,781,865	1,795,490	1,870,578	1,639,866
88,970	112,467	81,628	82,394	73,972
273,123	264,287	249,433	191,228	151,258
35,152,578	32,005,103	31,016,333	28,274,946	25,994,465
864,981	849,945	824,934	1,389,266	1,603,796
559,373	153,125	—	—	—
14,228	11,414	7,170	5,342	4,266
—	—	—	—	—
31,144	28,526	25,974	—	—
23,892	16,051	13,580	25,237	13,752
11,433	10,497	10,759	8,956	8,257
5,686	10,255	9,753	8,821	8,748
1,510,737	1,079,813	892,170	1,437,622	1,638,819
$ 36,663,315	$ 33,084,916	$ 31,908,503	$ 29,712,568	$ 27,633,284
$ 782,405	$ 725,311	$ 588,357	$ 553,229	$ 526,609
429,824	411,188	378,059	371,625	355,793
480,378	339,053	202,514	211,648	162,311
467,769	512,449	503,552	368,588	306,036
12,026,012	11,503,844	11,380,864	10,108,124	9,043,064
758,910	914,090	1,011,451	884,345	527,498
14,945,298	14,405,935	14,064,797	12,497,559	10,921,311
1,099,959	1,101,357	1,062,549	878,722	646,273
866,195	216,906	—	—	—
16,400	15,237	14,078	13,876	12,550
—	—	—	—	—
29,347	33,550	32,223	—	—
13,901	14,860	15,993	13,259	12,076
11,617	12,581	12,227	11,961	8,343
5,887	7,973	8,906	9,073	9,275
106,000	64,085	54,760	305,053	504,550
142	258	452	892	1,241
2,149,448	1,466,807	1,201,188	1,232,836	1,194,308
$ 17,094,746	$ 15,872,742	$ 15,265,985	$ 13,730,395	$ 12,115,619
$ (20,207,280)	$ (17,599,168)	$ (16,951,536)	$ (15,777,387)	$ (15,073,154)
638,711	386,994	309,018	(204,786)	(444,511)
$ (19,568,569)	$ (17,212,174)	$ (16,642,518)	$ (15,982,173)	$ (15,517,665)

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

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

[3] Prior to 2005 Regulatory programs were classified as Special Revenue Funds.

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

[5] For fiscal year 2010, N.C. Turnpike Authority is a major enterprise fund. Prior to 2010, it was included with other component units.

Continued

CHANGES IN NET ASSETS

For the Fiscal Years 2003-2012
(Dollars in Thousands)

		2012	2011	2010	2009	2008
General Revenues and Other Changes in Net Assets						
Governmental Activities:						
Taxes:						
Individual income tax	[1]	$ 10,459,307	$ 10,020,535	$ 9,345,441	$ 8,661,565	$ 10,676,156
Corporate income tax		1,233,989	1,132,931	1,252,800	997,206	1,357,670
Sales and use tax		5,530,046	6,172,377	5,916,119	4,911,656	5,159,453
Gasoline tax		1,892,163	1,675,476	1,557,430	1,523,496	1,579,847
Franchise tax		804,973	794,091	904,651	799,113	738,741
Highway use tax		506,211	469,811	439,506	440,749	566,132
Insurance tax		479,755	501,032	506,990	500,438	505,936
Beverage tax		322,190	311,809	295,383	263,553	258,193
Inheritance tax		57,839	24,184	71,731	103,811	158,178
Tobacco products tax	[4]	293,597	291,699	278,406	242,071	249,664
Other taxes		294,516	301,217	321,945	316,819	339,109
Tobacco settlement		146,135	131,318	145,539	175,838	168,583
Federal grants not restricted to specific programs		—	—	—	—	—
Unrestricted investment earnings		(56,055)	32,980	28,645	66,863	238,239
Miscellaneous		41,699	45,014	37,253	62,799	49,345
Contributions to permanent funds		3,297	3,188	3,101	3,248	3,894
Transfers		401,740	371,424	434,067	422,399	346,848
Total Governmental Activities		22,411,402	22,279,086	21,539,007	19,491,624	22,395,988
Business-type Activities:						
Miscellaneous		—	3	—	—	—
Transfers		(401,740)	(371,424)	(434,067)	(422,399)	(346,848)
Total Business-type Activities		(401,740)	(371,421)	(434,067)	(422,399)	(346,848)
Total Primary Government		$ 22,009,662	$ 21,907,665	$ 21,104,940	$ 19,069,225	$ 22,049,140
Change in Net Assets						
Governmental Activities		$ 1,402,270	$ 2,072,993	$ 1,815,613	$ 381,950	$ 190,311
Business-type Activities		201,301	(97,964)	(1,278,039)	(1,034,634)	181,824
Total Primary Government		$ 1,603,571	$ 1,975,029	$ 537,574	$ (652,684)	$ 372,135

Table 2

2007	2006	2005	2004	2003
$ 10,739,562	$ 9,336,745	$ 8,244,275	$ 7,407,455	$ 7,122,099
1,466,148	1,306,193	1,143,458	760,180	921,611
5,108,456	5,033,040	4,621,098	4,293,040	4,029,403
1,601,764	1,514,626	1,354,699	1,276,627	1,154,986
671,151	628,029	613,033	560,708	584,584
607,511	577,237	580,118	578,346	552,759
487,081	442,297	442,228	432,975	417,126
245,990	233,315	220,782	213,271	198,848
162,746	133,158	135,107	128,352	112,150
241,687	—	—	—	—
330,888	482,552	306,991	313,985	289,261
144,075	140,969	148,800	147,224	173,256
—	—	—	136,859	136,859
211,663	123,170	78,546	77,225	103,987
47,015	37,248	53,488	62,601	41,137
3,928	4,674	2,288	2,068	1,806
312,810	67,978	(11,620)	(302)	4,918
22,382,475	20,061,231	17,933,291	16,390,614	15,844,790
15	4	79	3	—
(312,810)	(67,978)	11,620	302	(4,918)
(312,795)	(67,974)	11,699	305	(4,918)
$ 22,069,680	$ 19,993,257	$ 17,944,990	$ 16,390,919	$ 15,839,872
$ 2,175,195	$ 2,462,063	$ 981,755	$ 613,227	$ 771,636
325,916	319,020	320,717	(204,481)	(449,429)
$ 2,501,111	$ 2,781,083	$ 1,302,472	$ 408,746	$ 322,207

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2003-2012

(Dollars in Thousands)

	2012	2011 [2]	2010	2009	2008	2007
General Fund						
Reserved	$ —	$ —	$ 224,358	$ 189,288	$ 172,909	$ 208,932
Unreserved	—	—	(338,738)	(966,861)	1,505,230	2,397,786
Nonspendable	80,054	93,482	—	—	—	—
Restricted	115,688	81,815	—	—	—	—
Committed	889,009	1,115,156	—	—	—	—
Unassigned	(62,303)	(107,348)	—	—	—	—
Total General Fund [1]	$ 1,022,448	$ 1,183,105	$ (114,380)	$ (777,573)	$ 1,678,139	$ 2,606,718
All Other Governmental Funds						
Reserved	$ —	$ —	$ 994,418	$ 1,209,650	$ 1,182,723	$ 1,014,757
Unreserved, reported in:						
Special revenue funds	—	—	2,321,665	2,337,370	2,517,529	2,524,643
Capital projects funds	—	—	10,311	(2,738)	280,939	224,991
Permanent funds	—	—	7,141	1,907	2,312	1,598
Nonspendable	220,015	198,830	—	—	—	—
Restricted	853,353	896,515	—	—	—	—
Committed	1,404,194	1,343,103	—	—	—	—
Assigned	496	—	—	—	—	—
Unassigned	(1,311)	(1,627)	—	—	—	—
Total all other governmental funds	$ 2,476,747	$ 2,436,821	$ 3,333,535	$ 3,546,189	$ 3,983,503	$ 3,765,989

Table 3

2006	2005	2004	2003
$ 155,948	$ 172,633	$ 197,448	$ 166,172
1,810,452	(251,442)	(393,735)	(333,127)
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
$ 1,966,400	$ (78,809)	$ (196,287)	$ (166,955)
$ 951,701	$ 911,966	$ 847,174	$ 672,653
2,204,146	2,170,533	2,260,374	2,041,905
115,060	44,237	110,395	84,677
1,518	2,645	2,380	6,903
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
$ 3,272,425	$ 3,129,381	$ 3,220,323	$ 2,806,138

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

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

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2003-2012

(Dollars in Thousands)

		2012	2011	2010	2009	2008
Revenues						
Taxes	[1]	$ 21,816,945	$ 21,689,379	$ 20,866,244	$ 18,752,674	$ 21,583,521
Federal funds		15,626,696	14,215,501	13,688,504	13,387,611	12,096,354
Local funds		188,405	186,944	218,162	349,303	527,325
Investment earnings		50,612	100,104	198,633	95,288	620,829
Interest earnings on loans		3,347	4,104	4,543	4,989	5,156
Sales and services		292,705	276,663	263,010	279,025	285,848
Rental and lease of property		26,574	25,165	22,122	25,398	27,737
Fees, licenses and fines		1,547,973	1,496,606	1,553,923	1,602,471	1,593,893
Tobacco settlement		140,979	138,256	146,358	175,187	159,954
Contributions, gifts, and grants		65,947	109,170	85,868	137,537	140,575
Funds escheated		68,207	111,481	70,381	27,399	74,743
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		658,570	2,265,393	2,391,851	1,164,674	N/A
Miscellaneous		145,943	158,945	164,685	184,839	167,449
Total revenues		40,632,903	40,777,711	39,674,284	36,186,395	37,283,384
Expenditures						
Current:						
General government		901,654	1,000,101	962,187	1,299,637	1,167,090
Primary and secondary education		9,738,102	10,000,438	9,850,462	10,111,797	9,879,602
Higher education		4,237,649	4,350,683	4,225,806	3,951,689	4,207,164
Health and human services		17,854,993	16,914,978	16,816,099	16,222,160	14,918,068
Economic development		667,057	741,447	915,038	634,369	747,728
Environment and natural resources		429,882	603,112	554,628	699,273	689,119
Public safety, corrections, and regulation		2,937,742	2,751,665	2,659,683	2,681,833	2,629,567
Transportation		3,801,196	3,660,069	3,253,258	3,266,494	3,473,718
Agriculture		181,387	113,153	112,902	111,506	117,380
Capital outlay		231,688	364,121	341,058	369,326	346,764
Debt service:						
Principal retirement	[2]	514,195	1,026,602	498,563	474,323	427,550
Interest and fees		346,540	393,432	322,287	326,287	329,813
Debt issuance costs		7,074	4,178	1,310	3,031	2,141
Total expenditures		41,849,159	41,923,979	40,513,281	40,151,725	38,935,704
Excess revenues over (under) expenditures		(1,216,256)	(1,146,268)	(838,997)	(3,965,330)	(1,652,320)
Other Financing Sources (Uses)						
Bonds issued		—	—	487,700	—	—
Special Indebtedness issued		400,000	500,000	—	600,000	275,000
GARVEE bonds issued		179,540	—	242,250	—	287,565
Refunding bonds issued		367,350	774,745	371,920	—	—
Other debt issued		15,825	—	9,098	1,533	7,425
Premium on debt issued		131,892	191,035	140,876	31,371	21,843
Discount on debt issued		—	—	—	—	—
Payments to refunded bond escrow agent		(428,830)	(370,982)	(435,870)	—	—
Capital leases		—	—	—	—	—
Sale of capital assets		12,889	12,118	11,994	13,079	29,570
Insurance recoveries		16,444	7,319	7,414	8,568	7,317
Transfers in		1,115,417	1,131,568	2,330,816	2,727,741	2,567,141
Transfers out		(715,002)	(698,321)	(1,876,502)	(2,309,101)	(2,223,438)
Total other financing sources (uses)		1,095,525	1,547,482	1,289,696	1,073,191	972,423
Net change in fund balances		$ (120,731)	$ 401,214	$ 450,699	$ (2,892,139)	$ (679,897)
Debt service as a percentage of noncapital expenditures		2.18%	3.61%	2.14%	2.12%	2.07%

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

Table 4

2007	2006	2005	2004	2003
$ 21,660,719	$ 19,848,465	$ 17,618,730	$ 15,961,629	$ 15,394,024
11,519,927	11,315,722	11,287,454	10,089,075	8,672,065
725,542	610,501	767,067	657,954	586,638
669,297	384,014	292,406	160,846	320,023
5,639	5,405	5,664	5,801	7,165
264,081	260,538	235,894	210,161	184,739
28,722	25,982	38,585	27,848	22,175
1,525,928	1,405,569	1,218,431	1,035,303	915,380
142,825	136,453	148,641	146,452	173,256
155,958	118,936	108,450	150,731	90,486
214,500	108,075	49,684	55,330	41,369
—	—	—	136,859	136,859
N/A	N/A	N/A	N/A	N/A
122,161	161,052	146,529	196,937	147,777
37,035,299	34,380,712	31,917,535	28,834,926	26,691,956
1,102,512	963,899	754,175	711,327	691,267
9,087,905	8,211,998	7,713,265	7,223,143	6,863,338
4,405,767	3,471,604	3,576,766	3,140,698	2,813,629
14,203,474	13,318,071	13,376,364	11,722,721	10,583,184
623,038	643,510	622,000	532,674	484,298
662,296	626,442	579,853	581,726	534,405
2,467,763	2,291,596	2,123,837	2,073,338	1,998,576
3,296,301	3,219,549	3,511,161	3,389,042	2,967,551
92,062	110,626	82,508	81,488	81,857
451,716	270,882	313,932	385,506	104,379
417,807	367,946	303,818	235,792	168,009
306,410	288,088	241,936	185,350	152,110
2,456	1,645	7,454	4,830	1,410
37,119,507	33,785,856	33,207,069	30,267,635	27,444,013
(84,208)	594,856	(1,289,534)	(1,432,709)	(752,057)
502,745	370,000	1,075,140	1,377,560	711,600
300,000	—	188,385	283,955	17,500
—	—	—	—	—
84,385	—	959,665	326,710	556,350
2,897	30,688	12,686	17,597	—
40,867	16,338	210,116	137,256	25,017
—	—	—	—	(254)
(85,519)	—	(1,059,663)	(346,915)	(558,444)
799	26,745	212	—	150
15,898	20,131	14,674	10,105	8,882
5,700	6,537	—	—	—
2,340,937	1,784,222	1,754,448	1,566,520	1,587,388
(2,030,162)	(1,718,585)	(1,760,801)	(1,557,208)	(1,583,075)
1,178,547	536,076	1,394,862	1,815,580	765,114
$ 1,094,339	$ 1,130,932	$ 105,328	$ 382,871	$ 13,057
2.06%	2.08%	1.78%	1.51%	1.25%

[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, principal retirement includes payment on a current refunding.

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2003-2012

(Dollars in Thousands)

		2012	2011	2010	2009	2008
TAX REVENUES			[3]			
Individual income tax	[1]	$ 10,457,217	$ 10,018,039	$ 9,343,303	$ 8,658,635	$ 10,672,362
Corporate income tax		1,194,865	1,139,584	1,245,515	941,509	1,265,654
Sales and use tax		5,516,304	6,133,915	5,871,166	4,872,318	5,125,674
Franchise tax		797,596	793,094	904,959	797,079	739,947
Beverage tax		322,194	311,814	295,349	263,553	257,393
Insurance tax		463,574	485,989	495,059	483,756	492,699
Piped natural gas		45,328	54,868	59,693	59,490	58,413
Inheritance tax		58,238	23,880	71,901	104,266	158,789
Tobacco products tax		293,286	290,743	278,296	242,071	249,664
License tax		45,577	48,924	41,338	37,716	55,293
Gift tax		181	2,973	12,036	12,294	17,361
Manufacturing tax		36,321	33,013	32,125	32,044	37,661
Other taxes		25,118	26,822	23,943	21,625	16,623
Total tax revenues		19,255,799	19,363,658	18,674,683	16,526,356	19,147,533
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		14,433,383	12,828,192	12,825,403	11,970,322	10,843,765
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		421,815	1,791,264	1,961,425	1,155,174	—
		14,855,198	14,619,456	14,786,828	13,125,496	10,843,765
Local Funds:						
Departmental revenues		164,679	149,545	153,234	304,270	486,536
Investment Earnings:						
Income from General Fund investments		13,533	30,925	36,877	103,703	234,478
Income from securities lending	[2]	(1,590)	9,527	49,733	(46,275)	143,487
Departmental revenues		4,014	7,295	3,264	4,788	7,829
Other investment earnings		—	—	—	3	39
		15,957	47,747	89,874	62,219	385,833
Interest Earnings on Loans:						
Departmental revenues		2,445	3,133	202	261	113
Sales and Services:						
Departmental revenues		137,527	130,166	97,323	104,925	102,307
Other non-tax revenues		92	112	116	143	138
		137,619	130,278	97,439	105,068	102,445
Rental and Lease of Property:						
Proceeds from rental and lease of property		85	88	67	83	98
Departmental revenues		10,348	11,523	8,810	8,773	7,908
		10,433	11,611	8,877	8,856	8,006
Fees, Licenses and Fines:						
Court fines and fees		258,968	225,710	216,772	190,995	198,520
Secretary of State service fees		85,062	76,451	81,221	64,202	62,035
Banking and investment fees		6,690	6,092	5,955	5,709	5,862
Self insurer fees (Industrial Commission)		15,169	15,176	15,497	15,230	14,791
Probation supervision fees		16,134	15,000	11,892	16,758	16,892
Department of Insurance fees		39,100	38,174	38,271	43,965	42,872
DWI service and restoration fees		8,946	8,928	7,638	9,310	9,441
Departmental revenues		252,398	217,191	212,260	184,952	164,813
Fines from tax collection activity		—	—	78,090	85,135	93,181
Other non-tax revenues		8,086	4,750	6,912	5,340	6,583
		690,553	607,472	674,508	621,596	614,990
Tobacco settlement:						
Tobacco settlement		140,979	138,256	146,358	175,187	159,954
Contributions, Gifts and Grants:						
Departmental revenues		20,452	22,591	20,391	16,179	16,054
Other non-tax revenues		—	—	—	—	—
		20,452	22,591	20,391	16,179	16,054
Miscellaneous:						
Local sales and use tax administration		12,177	13,692	14,603	15,613	16,982
Sales tax refunds		3,555	2,432	2,134	1,906	3,303
Departmental revenues		103,317	101,336	117,511	119,107	106,517
Other non-tax revenue		306	4,871	6,517	22,220	1,566
		119,355	122,331	140,765	158,846	128,368
Total non-tax revenues		16,157,670	15,852,420	16,118,476	14,577,978	12,746,064
Total Revenues	[1,2]	$ 35,413,469	$ 35,216,078	$ 34,793,159	$ 31,104,334	$ 31,893,597

Table 5

2007	2006	2005	2004	2003
$ 10,737,494	$ 9,493,714	$ 8,206,026	$ 7,404,956	$ 7,126,655
1,357,454	1,208,356	1,065,374	699,441	922,936
5,078,997	5,007,567	4,587,542	4,268,292	4,020,923
669,235	628,665	613,093	560,502	583,781
245,430	232,987	220,782	213,271	198,848
475,546	431,729	431,664	423,405	408,873
61,345	58,397	60,739	64,327	63,219
161,604	133,248	134,419	129,579	112,605
241,687	187,566	43,361	44,126	41,899
48,137	46,035	44,219	42,418	44,565
15,669	16,251	18,924	16,615	19,328
39,132	11,992	—	—	—
16,640	15,579	14,114	13,571	12,508
19,148,370	17,472,086	15,440,257	13,880,503	13,556,140
10,312,318	9,905,879	9,755,067	8,769,925	7,564,627
—	—	—	136,859	136,859
—	—	—	—	—
10,312,318	9,905,879	9,755,067	8,906,784	7,701,486
665,532	574,300	731,368	636,900	562,498
208,955	122,405	75,669	76,415	103,786
216,072	133,098	48,463	21,305	30,604
8,059	7,357	8,539	2,613	4,745
66	44	14	3	5
433,152	262,904	132,685	100,336	139,140
399	—	—	—	—
94,664	94,994	85,592	76,010	61,316
171	184	168	182	198
94,835	95,178	85,760	76,192	61,514
41	57	4,304	102	92
8,392	7,885	7,072	6,620	6,140
8,433	7,942	11,376	6,722	6,232
159,583	158,646	142,798	138,878	126,381
58,046	55,976	46,975	40,638	36,807
5,466	5,386	5,165	4,758	4,485
14,292	14,269	14,128	13,777	13,512
16,629	16,471	16,476	16,748	14,339
27,991	25,990	24,526	25,147	21,198
8,782	8,420	8,398	8,709	7,332
160,006	157,024	200,452	62,578	41,747
69,758	53,663	—	—	—
4,944	5,173	3,818	4,388	4,161
525,497	501,018	462,736	315,621	269,962
142,825	136,453	148,641	146,452	173,256
17,207	17,632	34,375	50,140	29,702
—	1	105	234	1
17,207	17,633	34,480	50,374	29,703
16,979	14,356	13,932	13,989	12,495
4,124	3,014	10,253	14,456	7,908
56,733	113,171	84,927	123,852	95,753
1,508	1,302	1,253	2,083	315
79,344	131,843	110,365	154,380	116,471
12,279,542	11,633,150	11,472,478	10,393,761	9,060,262
$ 31,427,912	$ 29,105,236	$ 26,912,735	$ 24,274,264	$ 22,616,402

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

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

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

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2001-2010

(Dollars in thousands)

	2010	2009	2008	2007	2006
Manufacturing	$ 30,813,179	$ 30,052,662	$ 33,393,211	$ 33,710,683	$ 32,935,416
Retail trade	15,658,678	15,181,820	15,921,230	16,531,753	15,824,997
Services	81,941,805	78,339,050	80,130,957	76,626,731	71,395,713
Agricultural, forestry, fishing, etc	619,777	607,872	625,404	659,840	653,293
Government	53,780,383	52,221,927	50,042,028	46,472,640	42,936,344
Construction	12,906,272	13,228,922	15,975,319	17,142,439	16,676,066
Wholesale trade	12,424,024	12,060,156	12,896,026	12,996,538	12,139,388
Transportation and warehousing	6,462,780	6,435,862	6,846,537	6,944,803	6,826,584
Finance and insurance	15,349,726	14,344,413	15,663,713	14,669,551	14,383,089
Mining	190,562	243,965	309,994	358,233	345,095
Utilities [1]	1,432,204	1,399,193	1,509,822	1,348,556	1,360,334
Information [1]	5,693,595	5,553,863	5,916,880	5,814,873	5,626,640
Real estate and rental and leasing	3,138,705	3,073,869	3,395,003	3,368,563	3,838,434
Other	94,265,005	89,931,587	90,106,679	80,310,758	72,655,030
Total	$ 334,676,695	$ 322,675,161	$ 332,732,803	$ 316,955,961	$ 297,596,423
Average effective rate [2]:					
Individual income tax	2.8%	2.7%	3.2%	3.4%	3.2%

[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 2011 & 2012 is not available.)

Table 6

2005	2004	2003	2002	2001
$ 32,568,557	$ 32,396,449	$ 32,161,055	$ 32,375,674	$ 33,266,256
15,247,734	14,405,203	13,967,967	13,516,856	13,197,763
65,206,678	61,288,110	56,777,852	54,700,974	51,484,324
603,690	595,838	552,685	543,807	539,090
40,511,663	37,711,849	35,272,127	32,923,320	31,293,332
14,995,919	13,783,354	12,829,904	12,664,406	13,197,476
11,243,020	10,558,552	9,683,219	9,253,121	8,838,791
6,660,176	6,447,742	5,952,517	5,738,970	6,069,310
12,593,724	11,515,594	10,916,275	10,414,855	9,759,381
294,567	254,654	221,600	216,001	253,650
1,265,031	1,310,832	1,239,668	1,218,858	—
5,418,024	5,322,364	5,159,965	5,034,451	—
3,829,563	3,714,865	3,653,635	3,498,745	3,473,445
67,305,137	61,392,684	55,307,537	54,598,193	61,458,018
$ 277,743,483	$ 260,698,090	$ 243,696,006	$ 236,698,231	$ 232,830,836
3.0%	2.8%	2.9%	3.1%	3.3%

Individual Income Tax Filers and Liability - Calendar Years 2001 and 2010
Individual Income Tax Rates - Calendar Years 2003-2012

Individual Income Tax Filers and Liability by Income Level

North Carolina Taxable Income	Calendar Year 2010 Number of Returns	% of Total	Tax Liability	% of Total	Calendar Year 2001 Number of Returns	% of Total	Tax Liability	% of Total
0 to $15,000...................	2,111,562	50.6%	$ 410,148,735	4.5%	1,860,790	51.7%	$ 456,907,685	6.8%
$15,001 to $25,000.........	544,097	13.0%	605,913,782	6.6%	519,388	14.4%	602,364,565	8.9%
$25,001 to $50,000.........	742,948	17.8%	1,650,402,270	17.9%	694,258	19.3%	1,544,292,235	22.9%
$50,001 to $75,000.........	347,180	8.3%	1,365,424,661	14.8%	276,969	7.7%	1,081,482,946	16.0%
$75,001 to $100,000.......	171,734	4.1%	981,297,519	10.7%	107,734	3.0%	614,208,910	9.1%
$100,001 to $200,000.....	186,466	4.5%	1,744,578,565	18.9%	102,465	2.8%	937,368,413	13.9%
$200,001 and up.............	67,516	1.7%	2,451,647,298	26.6%	41,222	1.1%	1,517,870,013	22.4%
	4,171,503	100.0%	$ 9,209,412,830	100.0%	3,602,826	100.0%	$ 6,754,494,767	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 2010 is the most recent year for which data are available.

Individual Income Tax Rates - Last 10 Years

2003-2006				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	$100,001-$200,000	> $200,000
Tax rate	6%	7%	7.75%	8.25%
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	$50,001-$100,000	> $100,000
Tax rate	6%	7%	7.75%	8.25%
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	$80,001-$160,000	> $160,000
Tax rate	6%	7%	7.75%	8.25%
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	$60,001-$120,000	> $120,000
Tax rate	6%	7%	7.75%	8.25%
2007				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	$100,001-$200,000	> $200,000
Tax rate	6%	7%	7.75%	8%
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	$50,001-$100,000	> $100,000
Tax rate	6%	7%	7.75%	8%
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	$80,001-$160,000	> $160,000
Tax rate	6%	7%	7.75%	8%
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	$60,001-$120,000	> $120,000
Tax rate	6%	7%	7.75%	8%

Temporary Rate Increase - Effective for the tax years January 1, 2001 through December 31, 2003, the General Assembly temporarily raised the highest individual income tax rate from 7.75% to 8.25%. This temporary increase was extended in subsequent budgets. In 2006-07, the General Assembly reduced the top rate from 8.25% to 8.0%, effective January 1, 2007.

Table 7

Individual Income Tax Rates - Last 10 Years

Tax Year	Bracket 1	Bracket 2	Bracket 3	
2008				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	> $100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	> $50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	> $80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	> $60,000	
Tax rate	6%	7%	7.75%	
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%**
2012				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	> $100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	> $50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	> $80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	> $60,000	
Tax rate	6%	7%	7.75%	

<u>Income tax rate restrictions</u> - 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."

<u>Income Tax Surtax Expired</u> - 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 2003-2012

(Dollars in Thousands)

	2012	2011	2010	2009	2008
General merchandise..........................	$ 28,488,712	$ 26,997,731	$ 26,700,373	$ 27,281,044	$ 27,545,474
Food..	21,188,038	20,063,710	19,986,254	19,982,767	20,427,943
Lumber & building material..................	10,936,526	9,980,618	9,896,788	11,728,029	15,125,717
Automotive...	5,798,630	5,592,481	5,371,476	5,365,726	5,782,027
1%, 2%, 2.5% and 3% tax group.........	447,963	429,092	411,092	653,686	878,522
Furniture..	3,599,804	3,416,656	3,442,183	3,854,662	4,746,011
Apparel..	4,343,728	3,962,251	3,756,305	3,628,009	3,901,540
Unclassified...	28,026,651	26,316,563	25,056,266	27,197,294	29,529,959
Total...	$ 102,830,052	$ 96,759,102	$ 94,620,737	$ 99,691,217	$ 107,937,193
Direct sales tax rate	4.75%	5.75%	5.75%	4.50%	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

2007	2006	2005	2004	2003
$ 27,814,179	$ 24,141,458	$ 36,237,522	$ 32,223,308	$ 29,741,143
18,856,362	17,333,935	27,537,881	25,767,200	23,947,582
15,625,168	14,749,083	16,234,363	13,775,836	11,975,740
6,138,450	5,416,622	18,109,374	16,588,986	16,510,653
1,350,932	4,551,097	5,467,429	5,155,348	5,114,707
4,733,484	4,387,923	5,528,144	5,030,490	4,725,403
3,753,902	3,481,573	3,622,110	3,169,392	2,846,629
28,314,743	27,490,165	40,846,913	38,401,343	37,820,249
$ 106,587,220	$ 101,551,856	$ 153,583,736	$ 140,111,903	$ 132,682,106
4.25%	4.50%	4.50%	4.50%	4.50%

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2003 & 2012

	2012		2003	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise	$ 1,382,986,686	23.48%	$ 836,211,296	19.62%
Food	1,032,532,550	17.53%	647,561,215	15.20%
Utilities	899,993,920	15.28%	638,345,779	14.98%
Lumber & building material	532,014,339	9.03%	442,421,857	10.38%
Automotive	293,295,322	4.98%	227,265,003	5.33%
Furniture	175,004,824	2.97%	163,022,146	3.83%
Apparel	210,572,153	3.57%	117,690,127	2.76%
Farming	—	0.00%	43,686,015	1.03%
Unclassified	1,364,250,422	23.16%	1,145,217,411	26.87%
Total	$ 5,890,650,216	100.00%	$ 4,261,420,849	100.00%
General state sales tax rate	4.75%		4.50%	

Recent Significant Sales Tax Rate and Base Changes

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).
2011-12	Effective July 1, 2011, Additional 1% State General sales and use tax rate expired. This also has the effect of reducing the State combined general rate from 8% to 7%. Effective June 13, 2012, Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013).

Source: North Carolina Department of Revenue

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2003-2012
(Dollars in Thousands)

		2012	2011	2010	2009	2008
Governmental activities:						
General obligation bonds		$ 4,470,500	$ 4,846,205	$ 5,270,660	$ 5,169,265	$ 5,533,760
Lease-purchase revenue bonds		30,915	205,045	215,045	225,045	235,045
Revenue bonds		—	—	—	—	—
Certificates of participation		557,895	824,860	872,600	919,585	965,880
Limited obligation bonds		1,795,090	1,060,745	580,705	600,000	—
GARVEE bonds		512,085	373,080	434,825	241,820	287,565
Notes payable		35,691	25,038	30,642	27,663	33,187
Capital leases payable		21,282	22,669	22,815	23,833	24,659
Total Governmental Activities		7,423,458	7,357,642	7,427,292	7,207,211	7,080,096
Business-type activities:						
Revenue bonds	(a), (b)	1,081,183	856,678	622,758	—	—
GARVEE bonds	(b)	145,535	—	—	—	—
Notes payable	(a), (b)	286,818	269,030	68,800	—	—
Total Business-type Activities		1,513,536	1,125,708	691,558	—	—
Total Primary Government		$ 8,936,994	$ 8,483,350	$ 8,118,850	$ 7,207,211	$ 7,080,096
Debt as a Percentage of Personal Income		2.42%	2.43%	2.43%	2.25%	2.14%
Amount of Debt per Capita		$ 914	$ 879	$ 851	$ 768	$ 766

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

2007	2006	2005	2004	2003
$ 5,902,330	$ 5,738,815	$ 5,698,535	$ 4,982,860	$ 4,066,990
245,045	255,045	265,045	218,405	—
—	8,800	—	—	—
727,640	454,060	475,170	301,165	17,500
—	—	—	—	—
—	—	—	—	—
37,276	62,298	34,007	25,008	9,629
25,740	26,879	330	304	322
6,938,031	6,545,897	6,473,087	5,527,742	4,094,441
—	—	9,070	9,325	9,570
—	—	—	—	—
—	—	1,569	—	—
—	—	10,639	9,325	9,570
$ 6,938,031	$ 6,545,897	$ 6,483,726	$ 5,537,067	$ 4,104,011
2.20%	2.21%	2.34%	2.13%	1.69%
$ 765	$ 738	$ 748	$ 649	$ 488

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2003-2012 *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
2012	$4,470,500	$ 30,915	$ 557,895	$1,795,090	$ 512,085	$ 7,366,485	$ 753.29
2011	4,846,205	205,045	824,860	1,060,745	373,080	7,309,935	757.00
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

Note: Population data can be found in table 15.

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SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2012

(Dollars in Thousands)

		Payable from General Fund Revenues					
	Total General Obligation Bonds	*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 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..........	157,155	157,155	—	30,000	—	—	—
Ch. 3, 2000 session law.............	2,122,800	2,122,800	—	250,000	33,750	88,750	88,750
2004 session law.......................	3,960,239	3,293,192	—	—	—	—	—
Total bonds authorized and issued............................	7,056,809	5,989,762	25,905	380,000	88,750	88,750	88,750
Bonds retired............................	1,782,799	1,407,288	18,080	161,265	—	—	—
Partial defeasances...................	803,510	520,110	—	211,460	—	—	—
Bonds outstanding— 6/30/2012……….	$ 4,470,500	$4,062,364	$ 7,825	$ 7,275	$ 88,750	$ 88,750	$ 88,750
Bond Maturity As Follows:							
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............	$ 4,470,500	$4,062,364	$ 7,825	$ 7,275	$ 88,750	$ 88,750	$ 88,750

Table 12

Payable from General Fund Revenues

Public Improvement Series 2002G 5-1-02	Clean Water Series 2002A 12-1-02	Public Improvement Series 2003A 3-1-03	Public Improvement Series 2003B 4-1-03	Refunding Series 2003E 8-1-03	Public Improvement Series 2004A 3-1-04	Public Improvement Refunding Series 2004 9-29-04	Public Improvement Series 2005A 1-12-05	Refunding Series 2005A 1-12-05
Variable to 18%	2.25 - 5.0%	2.0% - 5.25%	2.0-5.0%	4%-5%	2%-5.25%	3%-5.5%	4%-5.5%	3%-5%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	235,710	—	—	—	—
—	—	—	—	—	—	—	—	—
—	18,800	38,355	—	—	—	—	—	—
88,750	—	281,645	283,255	—	707,900	—	—	—
—	—	—	—	—	—	57,470	705,500	106,895
88,750	18,800	320,000	283,255	235,710	707,900	57,470	705,500	106,895
—	2,565	77,000	74,300	215,290	145,000	29,100	239,000	12,315
—	—	—	—	—	—	—	248,650	—
$ 88,750	$ 16,235	$ 243,000	$ 208,955	$ 20,420	$ 562,900	$ 28,370	$ 217,850	$ 94,580
$ 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	$ 16,235	$ 243,000	$ 208,955	$ 20,420	$ 562,900	$ 28,370	$ 217,850	$ 94,580

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2012

(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....................	122,500	18,700	90,000	125,000	1,600	7,503	48,770	19,300	—
Partial defeasances...........	—	—	60,000	—	—	—	—	—	—
Bonds outstanding— 6/30/2012……................	$ 348,010	$ 51,300	$ 150,000	$ 377,745	$ 82,785	$ 161,794	$ 438,930	$ 453,295	$ 236,095
Bond Maturity As Follows:									
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...	$ 348,010	$ 51,300	$ 150,000	$ 377,745	$ 82,785	$ 161,794	$ 438,930	$ 453,295	$ 236,095

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2012 *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..............................	375,511	144,000	82,530	140,000	8,981	—
Partial defeasances....................	283,400	203,400	—	80,000	—	—
Bonds outstanding— 6/30/2012……...........................	— $ 408,136	$ 52,600	$ 15,840	$ 80,000	$ 193,641	$ 66,055
Bond Maturity As Follows:						
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............	$ 408,136	$ 52,600	$ 15,840	$ 80,000	$ 193,641	$ 66,055

Source: Compiled by the Department of State Treasurer

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2012

(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 2004B 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.......	$ 2,944,710	$ 218,405	$ 218,405	$ —	$ 858,955	$ —	$ 158,955	$ 125,000	$ —
Ch. 143, 2000 session law..........	17,500	—	—	—	17,500	17,500	—	—	—
General Statute Ch. 148-37.2..	53,640	53,640	—	53,640	—	—	—	—	—
Ch. 179, 2004 session law.......	188,385	—	—	—	188,385	—	—	—	188,385
Total bonds authorized and issued...........................	3,204,235	272,045	218,405	53,640	1,064,840	17,500	158,955	125,000	188,385
Bonds retired...........................	437,790	77,000	63,000	14,000	288,530	5,750	63,595	48,000	52,400
Partial defeasances.................	382,545	164,130	139,280	24,850	218,415	10,725	71,515	59,000	77,175
Bonds outstanding— June 30, 2012...................	$ 2,383,900	$ 30,915	$ 16,125	$ 14,790	$ 557,895	$ 1,025	$ 23,845	$ 18,000	$ 58,810
Bond Maturity As Follows:									
2012-13...............................	$ 110,745	$ 10,000	$ 8,000	$ 2,000	$ 49,395	$ 825	$ 7,950	$ 6,000	$ 9,005
2013-14...............................	112,990	10,000	8,000	2,000	49,630	200	7,950	6,000	9,455
2014-15...............................	115,920	2,125	125	2,000	42,390	—	—	6,000	9,925
2015-16...............................	119,080	2,000	—	2,000	37,350	—	—	—	10,425
2016-17...............................	122,385	650	—	650	27,415	—	—	—	—
2017-18...............................	126,220	500	—	500	27,935	—	—	—	—
2018-19...............................	130,245	—	—	—	28,485	—	—	—	—
2019-20...............................	149,500	—	—	—	29,070	—	—	—	—
2020-21...............................	150,575	—	—	—	29,690	—	—	—	—
2021-22...............................	154,615	—	—	—	30,345	—	—	—	—
2022-23...............................	159,095	—	—	—	31,045	—	—	—	—
2023-24...............................	165,095	2,820	—	2,820	49,725	—	7,945	—	10,000
2024-25...............................	132,445	2,820	—	2,820	42,560	—	—	—	10,000
2025-26...............................	124,815	—	—	—	33,390	—	—	—	—
2026-27...............................	125,205	—	—	—	29,270	—	—	—	—
2027-28...............................	120,520	—	—	—	20,200	—	—	—	—
2028-29...............................	105,295	—	—	—	—	—	—	—	—
2029-30...............................	63,145	—	—	—	—	—	—	—	—
2030-31...............................	66,400	—	—	—	—	—	—	—	—
2031-32...............................	29,610	—	—	—	—	—	—	—	—
Total Bonds Outstanding..........	$ 2,383,900	$ 30,915	$ 16,125	$ 14,790	$ 557,895	$ 1,025	$ 23,845	$ 18,000	$ 58,810

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%	Capital Improvements Refunding Series 2011B 10-26-11 4.0%-5.0%	Capital Improvements Series 2011C 11-29-11 3.0%-5.25%
$ 100,000	$ 200,000	$ 200,000	$ 75,000	$ 1,867,350	$ 200,000	$ 400,000	$ 500,000	$ 367,350	$ 400,000
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
100,000	200,000	200,000	75,000	1,867,350	200,000	400,000	500,000	367,350	400,000
30,000	50,000	23,785	15,000	72,260	19,070	40,895	12,295	—	—
—	—	—	—	—	—	—	—	—	—
$ 70,000	$ 150,000	$ 176,215	$ 60,000	$ 1,795,090	$ 180,930	$ 359,105	$ 487,705	$ 367,350	$ 400,000
$ 5,000	$ 10,000	$ 6,865	$ 3,750	$ 51,350	$ 7,000	$ 14,565	$ 17,430	$ —	$ 12,355
5,000	10,000	7,275	3,750	53,360	7,350	15,090	17,950	—	12,970
5,000	10,000	7,715	3,750	71,405	7,720	15,670	18,490	15,905	13,620
5,000	10,000	8,175	3,750	79,730	8,105	16,360	19,230	21,735	14,300
5,000	10,000	8,665	3,750	94,320	8,510	17,060	20,000	33,735	15,015
5,000	10,000	9,185	3,750	97,785	8,935	17,835	20,800	34,450	15,765
5,000	10,000	9,735	3,750	101,760	9,385	18,610	21,630	35,580	16,555
5,000	10,000	10,320	3,750	120,430	9,855	19,455	22,495	51,240	17,385
5,000	10,000	10,940	3,750	120,885	10,345	20,415	23,395	48,480	18,250
5,000	10,000	11,595	3,750	124,270	10,860	21,435	24,330	48,480	19,165
5,000	10,000	12,295	3,750	128,050	11,405	22,470	25,545	48,510	20,120
5,000	10,000	13,030	3,750	112,550	11,975	23,590	26,825	29,235	20,925
5,000	10,000	13,810	3,750	87,065	12,575	24,770	28,165	—	21,555
5,000	10,000	14,640	3,750	91,425	13,205	26,010	29,575	—	22,635
—	10,000	15,520	3,750	95,935	13,865	27,255	31,050	—	23,765
—	—	16,450	3,750	100,320	14,555	28,565	32,605	—	24,595
—	—	—	—	105,295	15,285	29,950	34,235	—	25,825
—	—	—	—	63,145	—	—	36,030	—	27,115
—	—	—	—	66,400	—	—	37,925	—	28,475
—	—	—	—	29,610	—	—	—	—	29,610
$ 70,000	$ 150,000	$ 176,215	$ 60,000	$ 1,795,090	$ 180,930	$ 359,105	$ 487,705	$ 367,350	$ 400,000

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2003-2012
(Dollars in Thousands)

	2012	2011	2010	2009	2008
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	$ 1,224,161	$ 1,372,359	$ 823,450	$ 1,119,259	$ 904,400
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 1,224,161	$ 1,372,359	$ 823,450	$ 1,119,259	$ 904,400
Debt service					
Principal	$ 40,535	$ 61,745	$ 49,515	$ 45,745	$ —
Interest	18,298	20,082	17,652	13,585	5,056
Coverage ratio	20.81	16.77	12.26	18.87	178.87
North Carolina Turnpike Authority (b)					
Revenue Bonds (including GARVEE bonds)					
Pledged Revenue-					
Federal transportation revenues	$ 12,400	$ —	$ —	$ —	$ —
Federal interest subsidy on debt	12,218	10,843	7,298	—	—
Interest on investments	2,910	5,235	4,121	—	—
Transfers in - state appropriations	49,000	49,000	25,000	—	—
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 76,528	$ 65,078	$ 36,419	$ —	$ —
Debt service					
Principal	$ —	$ —	$ —	$ —	$ —
Interest	49,753	37,869	15,052	—	—
Coverage ratio	1.54	1.72	2.42	—	—
N.C. Housing Finance Agency					
Revenue Bonds					
Pledged Revenue-					
Interest on investments	$ 6,516	$ 6,868	$ 9,803	$ 13,001	$ 21,281
Interest on mortgage loans	69,319	75,118	81,437	86,813	82,913
Net increase/decrease in fair value of investments	532	99	(46)	(444)	1,064
Other revenue	15	122	189	617	951
Less: Operating expenses	(5,954)	(10,073)	(7,416)	(6,062)	(5,542)
Net available revenue	$ 70,428	$ 72,134	$ 83,967	$ 93,925	$ 100,667
Debt service					
Principal	$ 58,800	$ 36,480	$ 36,865	$ 18,745	$ 31,050
Interest	59,527	66,778	75,909	43,070	77,665
Coverage ratio	0.60	0.70	0.74	1.52	0.93

(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

	2007	2006	2005	2004	2003
	(a)	$ 2,377	$ 3,531	$ 3,673	$ 3,936
	(a)	5	3	8	—
	(a)	8	14	14	13
	(a)	147	156	106	243
	(a)	(2,261)	(2,470)	(2,372)	(2,341)
	$ —	$ 276	$ 1,234	$ 1,429	$ 1,851
	(a)	$ 270	$ 255	$ 245	$ 235
	(a)	394	414	419	434
	(a)	0.42	1.85	2.16	2.77
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—
	—	—	—	—	—
	$ 26,088	$ 23,718	$ 17,659	$ 17,357	$ 14,687
	71,892	66,515	69,816	74,650	83,045
	1,544	(2,372)	544	—	—
	65	444	198	147	92
	(4,868)	(4,640)	(4,996)	(4,678)	(4,739)
	$ 94,721	$ 83,665	$ 83,221	$ 87,476	$ 93,085
	$ 178,050	$ 175,670	$ 27,967	$ 24,245	$ 21,465
	73,845	70,059	63,242	69,622	74,408
	0.38	0.34	0.91	0.93	0.97

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2003-2012
(Dollars in Thousands)

	2012	2011	2010	2009	2008
State Education Assistance Authority					
Revenue Bonds					
Pledged Revenue-					
Student loan principal collections	$ 215,742	$ 187,443	$ 312,810	$ 346,546	$ 364,274
Interest earnings on loans	323	145	29,760	90,594	137,512
Investment earnings	17,795	13,164	518	7,043	18,999
Less: Operating expenses	(16,899)	(34,322)	(47,318)	(43,273)	(31,381)
Net available revenue	$ 216,961	$ 166,430	$ 295,770	$ 400,910	$ 489,404
Debt service					
Principal	$ 198,966	$ 334,538	$ 395,398	$ 224,275	$ 153,589
Interest	25,987	25,958	74,730	129,595	165,517
Coverage ratio	0.96	0.46	0.63	1.13	1.53
Note Payable/Short term debt					
Pledged Revenue-					
Student loan principal collections	$ 234,313	$ 196,320	$ 81,631	$ —	$ —
Interest earnings on loans	(6,519)	(2,859)	563	—	—
Less: Operating expenses	(4,109)	(7,950)	(3,983)	—	—
Net available revenue	$ 223,685	$ 185,511	$ 78,211	$ —	$ —
Debt service					
Principal	$ 184,681	$ 164,608	$ 61,119	$ —	$ —
Interest	10,184	12,755	5,488	—	—
Coverage ratio	1.15	1.05	1.17	—	—
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services	$ 276,169	$ 316,088	$ 314,307	$ 407,862	$ 658,628
Student tuition and fees	6,903	13,859	13,503	15,405	29,221
Patient services	635,631	592,061	561,392	502,062	1,447,635
Contracts and grants	—	—	—	—	123,469
State appropriations	—	3	—	—	53,010
Fees, licenses and fines	270	565	89	1,643	10,506
Rental lease earnings	258	6,787	5,809	5,989	7,690
Investment income	612	944	1,405	5,190	(31,687)
Federal interest subsidy on debt	36	1,559	—	—	—
Other operating revenues	432	463	428	498	13,407
Net inc(dec) in fair value of investments	74	—	—	—	—
Non-operating revenues	66	—	—	—	53,231
Less: Operating expenses	(742,985)	(769,977)	(745,843)	(802,163)	(2,047,904)
Net available revenue	$ 177,466	$ 162,352	$ 151,090	$ 136,486	$ 317,206
Debt service					
Principal	$ 20,400	$ 9,900	$ 20,394	$ 19,055	$ 51,272
Interest	11,598	11,746	8,965	15,277	69,315
Coverage ratio	5.55	7.50	5.15	3.98	2.63

Table 14

2007	2006	2005	2004	2003
$ 618,723	$ 660,332	$ 300,827	$ 277,552	$ 214,782
151,237	115,306	80,912	50,037	46,587
24,551	15,174	4,157	2,686	2,450
(30,290)	(24,627)	(19,395)	(17,603)	(14,781)
$ 764,221	$ 766,185	$ 366,501	$ 312,672	$ 249,038
$ —	$ 1,000	$ 1,000	$ 1,000	$ 1,000
117,324	60,912	25,212	17,736	23,351
6.51	12.38	13.98	16.69	10.23
$ —	$ —	$ —	$ —	$ —
—	—	—	—	—
—	—	—	—	—
$ —	$ —	$ —	$ —	$ —
$ —	$ —	$ —	$ —	$ —
—	—	—	—	—
—	—	—	—	—
$ 614,244	$ 562,332	$ 531,673	$ 513,867	$ 479,714
37,088	36,847	51,657	54,525	54,025
1,367,363	1,210,356	1,131,038	1,057,614	928,153
120,657	120,513	113,049	104,373	98,371
45,674	44,510	39,334	37,788	37,771
19,814	19,626	13,056	12,413	11,834
29,587	21,182	18,802	17,781	17,470
99,337	31,632	19,121	20,580	53,432
—	—	—	—	—
20,318	30,369	30,133	32,284	38,509
—	—	—	—	—
50,929	37,274	39,558	35,688	46,521
(1,919,133)	(1,763,826)	(1,653,952)	(1,604,207)	(1,487,632)
$ 485,878	$ 350,815	$ 333,469	$ 282,706	$ 278,168
$ 51,995	$ 52,696	$ 54,917	$ 54,467	$ 48,520
66,764	66,557	58,146	53,067	53,351
4.09	2.94	2.95	2.63	2.73

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2006-2012

(Dollars in Thousands)

	2012	2011	2010	2009	2008
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services	$ 3,101	$ 2,850	$ 2,814	$ 2,874	$ 2,446
Student tuition and fees	1,307	1,294	1,286	1,329	1,147
Rental lease earnings	62	31	26	77	118
Investment income	4	2	3	8	45
Less: Operating expenses	(959)	(926)	(1,086)	(993)	(895)
Net available revenue	$ 3,515	$ 3,251	$ 3,043	$ 3,295	$ 2,861
Debt service					
Principal	$ 1,225	$ 1,180	$ 1,140	$ 1,105	$ 1,075
Interest	1,059	1,100	1,144	1,181	1,209
Coverage ratio	1.54	1.43	1.33	1.44	1.25
Note Payable					
Pledged Revenue-					
Federal interest subsidy on debt	$ 120	$ 119	$ 22	$ —	$ —
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 120	$ 119	$ 22	$ —	$ —
Debt service					
Principal	$ —	$ —	$ —	$ —	$ —
Interest	344	341	64	—	—
Coverage ratio	0.35	0.35	0.35	—	—

Information prior to 2006 is not available.

Table 14

	2007		2006
$	—	$	—
	1,114		1,090
	—		—
	44		19
	(60)		—
$	1,098	$	1,109
$	905	$	575
	573		222
	0.74		1.39
$	—	$	—
	—		—
$	—	$	—
$	—	$	—
	—		—
	—		—

SCHEDULE OF DEMOGRAPHIC DATA

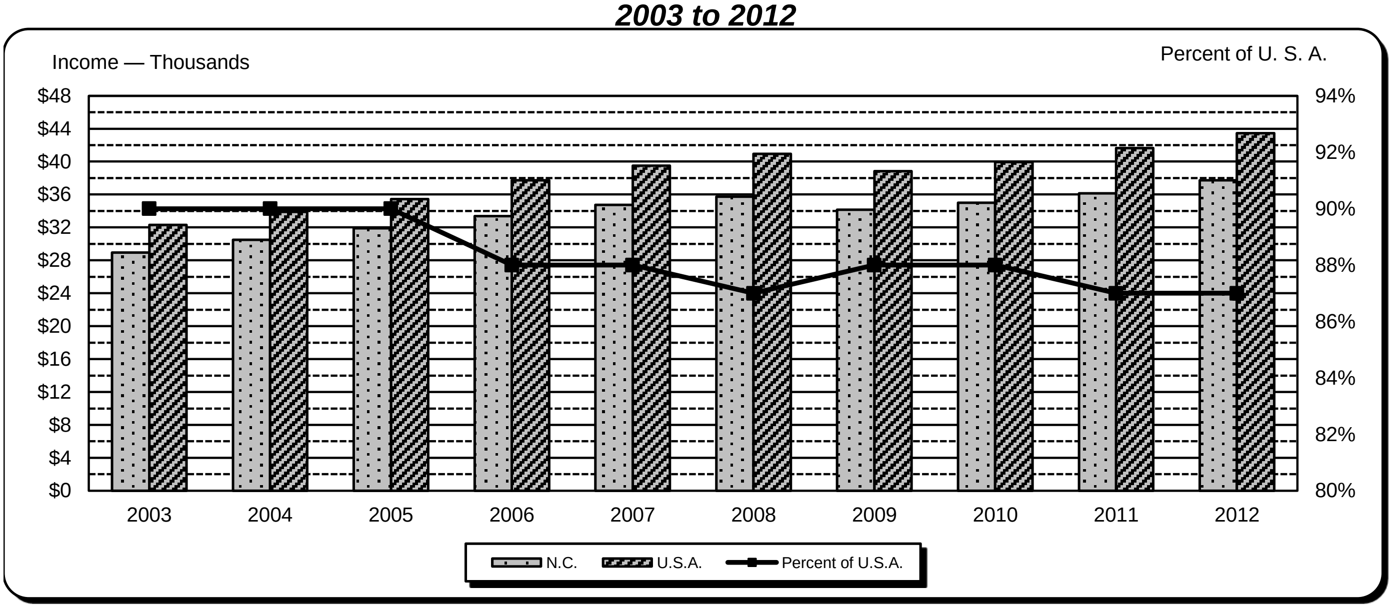
For the Years 1950, 1960, 1970, 1980, 1990, 2000, 2003-2012

	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
2012	314,458,563 [D]	0.92%	9,779,037 [D]	1.27%	$ 43,464 [E]	$ 37,727 [E]	86.80%	$13,667,627	$ 368,934
2011	311,591,917 [F]	0.92%	9,656,401 [F]	1.27%	41,663 [C]	36,164 [C]	86.80%	12,981,854	349,214
2010	308,745,538 [F]	0.57%	9,535,483 [F]	1.65%	39,937 [C]	35,007 [C]	87.66%	12,330,371	333,809
2009	307,006,550 [B]	0.86%	9,380,884 [B]	1.45%	38,846 [C]	34,147 [C]	87.90%	11,925,976	320,329
2008	304,374,846 [B]	0.93%	9,247,134 [B]	2.02%	40,947 [C]	35,741 [C]	87.29%	12,463,237	330,502
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
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 2012 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 2012 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2012 Per Capita Income for North Carolina".
[F] - U.S. Census estimates based on 2010 census

Per Capita Income
North Carolina Compared to United States
2003 to 2012



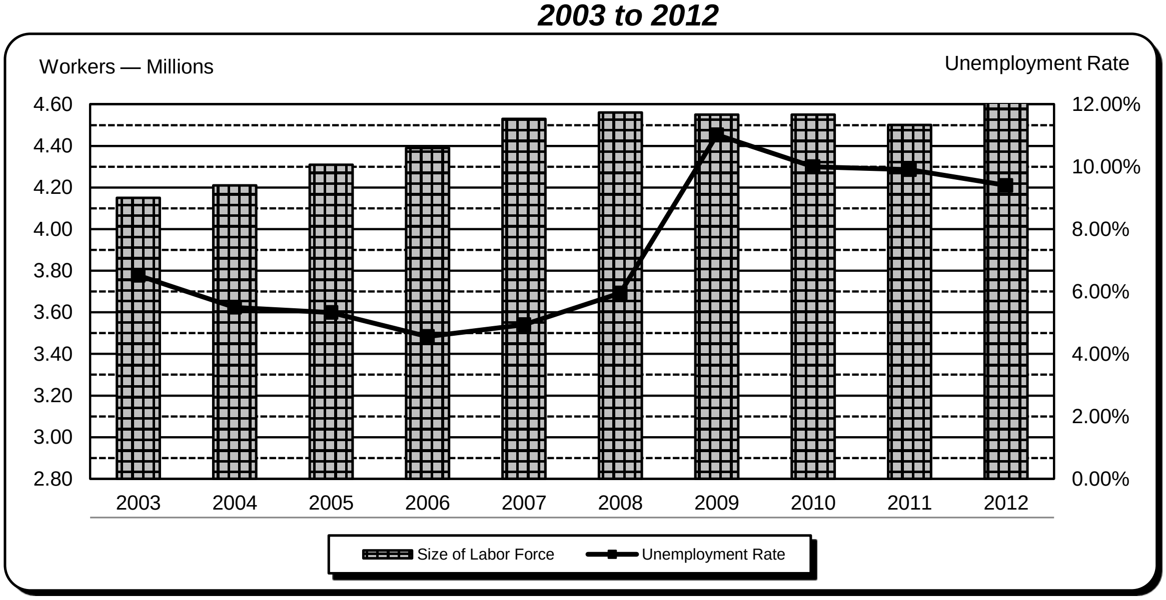
Sources: *[1] Population* — *U.S. Department of Commerce, Bureau of the Census*
[2] Per Capita Income — *U.S. Department of Commerce, Bureau of Economic Analysis*
[3] Personal Income — *Calculated from sources 1 and 2*

Table 15

				[4]	[5]	[6]
North Carolina Civilian Labor Force Data					***North Carolina - Other Data***	
Year	**Total**	**Employed**	**Unemployed**	**Unemployed Percentage Rate**	**Motor Vehicles Registered**	**Residential Construction Authorized**
2012	4,655,387	4,216,014	439,373	9.40%	8,740,382	23,894
2011	4,503,162	4,055,793	447,369	9.90%	8,342,983	16,536
2010	4,545,756	4,089,199	456,557	10.00%	8,207,805	18,525
2009	4,554,663	4,052,943	501,720	11.02%	8,451,048	17,006
2008	4,559,713	4,288,621	271,092	5.95%	8,570,893	31,316
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626
2005	4,308,482	4,078,645	229,837	5.33%	7,925,587	50,488
2004	4,208,568	3,977,421	231,147	5.49%	7,701,410	46,735
2003	4,152,243	3,882,026	270,217	6.51%	7,624,272	38,137
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 2003 to 2012



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 2003 & 2012 *Table 16*

Employer	2012 Employees	2012 Rank	2012 Percentage of Total State Employment	2003 Employees	2003 Rank	2003 Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.33%	160,000-164,999	1	4.19%
Federal Government	65,000-69,999	2	1.60%	60,000-64,999	2	1.61%
Wal-Mart Associates, Inc.	50,000-54,999	3	1.25%	35,000-39,999	3	0.97%
Duke University	25,000-29,999	4	0.65%	20,000-24,999	5	0.58%
Charlotte Meckelenburg Hospital	25,000-29,999	5	0.65%	10,000-14,999	9	0.32%
Food Lion LLC	25,000-29,999	6	0.65%	25,000-29,999	4	0.71%
Wells Fargo Bank NA	20,000-24,999	7	0.53%	20,000-24,999	6	0.58%
Charlotte-Mecklenburg Board of Education.	15,000-19,999	8	0.42%	15,000-19,999	7	0.45%
Wake County Public schools	15,000-19,999	9	0.42%	10,000-14,999	10	0.32%
Bank of America NA	15,000-19,999	10	0.42%	—		—
IBM Corporation	—		—	15,000-19,999	8	0.45%
Total	435,000-484,990		10.92%	370,000-419,990		10.18%

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given.

Source: North Carolina Department of Commerce – Division of Employment Security

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TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2003-2012

Functions	2012	2011	2010	2009	2008
General government	5,928	6,325	6,424	6,362	6,188
Primary and secondary education	162,124	157,380	154,107	163,322	163,113
Higher education:					
Universities	61,508	62,928	61,723	61,299	59,084
Community colleges	19,511	19,746	18,730	17,027	16,480
Health and human services (a)	17,958	20,382	20,919	22,094	21,276
Economic development	2,415	2,767	2,524	2,474	2,558
Environment and natural resources (b)	3,561	4,582	4,607	4,740	4,709
Public safety, corrections and regulation (a)	34,147	33,555	32,657	33,431	32,600
Transportation	13,175	13,550	13,902	14,767	14,752
Agriculture (b)	2,064	1,349	1,366	1,393	1,385
Totals	322,391	322,564	316,959	326,909	322,145

(a) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in public safety, corrections and regulation function; whereas in prior years it was included with health and human services function.
(b) Starting in fiscal year 2012, the Division of North Carolina Forest Service and Division of Soil and Water Conservation are included in the agriculture function; whereas in prior years it was included with environment and natural resources function.

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2012 are projected from prior year data.

Table 17

2007	2006	2005	2004	2003
6,045	5,680	5,435	5,301	5,635
160,086	156,463	152,746	147,798	143,428
56,964	55,800	53,560	51,902	50,787
15,935	15,610	15,764	15,277	14,582
21,128	20,766	20,665	20,366	18,545
2,623	2,567	2,366	2,469	2,466
4,653	4,616	4,493	4,341	4,337
31,971	31,448	30,429	30,125	30,810
14,664	14,007	14,379	14,218	14,438
1,405	1,377	1,339	1,343	1,275
315,474	308,334	301,176	293,140	286,303

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2003-2012

	2012	2011	2010	2009	2008
General Government					
Department of Revenue					
Number of tax returns filed electronically	4,801,446	4,078,310	4,089,267	3,502,141	3,246,333
Number of tax returns processed	10,888,330	10,596,928	10,898,544	11,336,722	11,258,489
Number of individual refunds direct deposited	1,702,620	1,556,340	1,376,997	1,294,894	1,119,403
Number of individual refunds processed	3,083,401	3,026,035	3,021,379	3,081,986	3,005,539
Number of pieces of incoming mail	5,827,530	6,012,977	7,219,907	6,897,757	8,636,219
Number of pieces of outgoing mail	8,525,983	8,972,129	8,201,770	8,443,945	9,194,775
Department of Administration					
Construction projects administered	6	6	16	135	117
Construction value excluding design fee (thousands)	$ 54,378	$ 35,403	$ 79,906	$ 110,674	$ 52,660
Cultural Resources					
Visitation to historical sites and museums	2,966,128	2,966,209	2,325,718	2,079,340	2,627,987
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment	1,481,671	1,476,348	1,465,562	1,466,803	1,462,374
Total high school graduates	92,031	89,027	89,968	83,618	80,606
Graduate intention to pursue further education	100.00%	86.12%	85.19%	85.09%	84.86%
Higher Education					
Community Colleges					
Number of students (annualized FTE)	240,338	249,934	246,656	215,915	200,000
Number of certificates and degrees awarded	56,140	39,255	33,922	31,203	28,173
Universities					
Number of regular term students (FTE)	200,386	201,147	199,717	193,219	187,791
Number of certificates and degrees awarded	48,045	45,821	43,459	41,924	39,592
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (a)	1,872,279	1,670,912	1,721,439	1,686,515	1,721,488
Food stamp recipients	2,113,648	1,567,572	1,294,732	1,077,914	924,265
Clients served by mental health facilities	4,102	4,423	6,199	8,465	11,729
Clients served by developmental disabilities facilities	1,283	1,334	1,323	1,351	1,376
Clients served by substance abuse facilities	3,901	4,200	4,103	3,922	4,052
Clients served by neuro-meds facilities	830	827	829	858	854
Children served through subsidized child care	129,752	136,564	151,363	150,813	159,457
Participation in Special Supplemental Nutrition Program	268,872	272,806	271,980	273,845	254,120
Clients served through Work First	102,367	47,166	56,186	54,911	53,082
NC Health Choice annual enrollment	154,927	208,563	198,613	194,611	181,685
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion	15,634	22,409	18,326	15,077	11,636
Capital investment (thousands)	$ 3,600,000	$ 4,151,293	$ 2,653,795	$ 3,433,657	$ 3,600,000
Division of Employment Security					
Total employed	4,216,014	4,055,793	4,089,199	4,052,943	4,288,621
Percentage of unemployment	9.40%	9.90%	10.00%	11.02%	5.95%

Table 18

2007	2006	2005	2004	2003
2,799,979	2,487,716	1,922,459	1,666,765	1,436,218
10,386,112	10,437,669	9,947,817	9,725,620	9,778,591
925,321	809,473	673,976	564,200	446,217
2,832,152	2,834,960	2,732,523	2,658,709	2,654,339
8,092,899	7,986,688	8,334,624	8,122,589	8,222,560
7,844,614	9,206,342	8,687,346	8,922,981	10,098,087
61	71	226	181	213
$ 60,028	$ 73,006	$ 873,713	$ 486,287	$ 522,060
2,748,455	2,068,910	2,356,046	2,465,484	2,234,241
1,435,275	1,368,607	1,346,681	1,325,344	1,303,777
88,691	72,580	74,691	71,853	69,568
84.63%	87.09%	84.64%	83.26%	83.63%
193,410	190,644	194,235	192,693	185,490
27,117	28,983	29,600	27,050	23,645
181,886	176,619	158,398	152,224	171,409
38,260	37,348	37,569	36,689	34,580
1,667,354	1,673,510	1,545,366	1,541,450	N/A
874,426	838,064	818,141	791,241	N/A
14,897	14,766	14,909	13,753	12,853
1,390	1,382	1,425	1,472	1,521
3,463	3,692	3,493	3,440	3,511
874	851	852	853	875
167,568	230,140	155,339	156,534	N/A
239,441	63,290	224,670	218,345	N/A
59,340	69,885	39,426	42,177	N/A
171,580	199,160	169,491	N/A	N/A
19,259	20,293	18,246	15,393	9,531
$ 3,336,864	$ 3,024,914	$ 2,982,292	$ 1,863,213	$ 1,127,466
4,309,833	4,193,971	4,078,645	3,977,421	3,882,026
4.94%	4.56%	5.33%	5.49%	6.51%

Continued

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2003-2012

	2012	2011	2010	2009	2008
Environment and Natural Resources					
Department of Environment and Natural Resources					
Public drinking water systems in compliance	95%	96%	96%	95%	95%
Visitation to Museum of Natural Sciences	914,044	675,751	656,234	763,763	727,000
Visitation to N.C. Zoo	738,072	741,119	749,627	729,615	729,500
Wildlife Resources Commission					
Hunting licenses sold	214,767	218,397	213,700	212,361	211,780
Fishing licenses sold	552,130	540,318	543,544	560,282	538,800
Vessels registered	143,535	147,964	151,348	143,071	140,573
Public Safety, Corrections and Regulation (d)					
Department of Public Safety					
Incarcerated adult offenders	38,385	41,030	40,102	40,824	39,112
Supervised adult offenders	103,163	109,326	111,743	114,367	116,927
Juvenile offenders	9,090	9,332	9,867	10,701	10,592
Adminstrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court	100.00%	100.00%	100.00%	97.40%	98.50%
Cases disposed as a % of cases filed-District Court	100.00%	100.00%	100.00%	100.00%	98.28%
Agriculture					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (b)	104,666	99,273	121,897	99,461	98,736
Rejection rate	9.20%	9.93%	10.77%	10.29%	12.73%
Retail scales tested (c)	28,074	28,925	33,331	33,329	24,640
Rejection rate	8.14%	7.63%	11.10%	11.11%	10.51%

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)

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

Table 18

2007	2006	2005	2004	2003
95%	94%	93%	94%	93%
667,014	622,915	556,422	913,751	518,132
746,650	682,977	705,030	676,956	576,093
204,425	204,451	107,242	107,572	109,511
511,974	451,412	331,688	329,314	302,581
142,808	363,641	354,096	361,134	354,863
38,218	37,121	36,481	34,990	33,378
117,164	116,513	117,611	117,196	118,285
10,844	10,658	10,575	10,349	N/A
98.50%	93.80%	95.52%	96.27%	93.40%
98.70%	98.10%	97.56%	95.92%	97.46%
100,928	109,699	95,735	103,026	80,390
13.80%	10.77%	8.87%	7.22%	9.25%
20,051	24,896	27,678	23,335	29,021
10.70%	8.28%	9.09%	8.70%	7.54%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2003-2012

	2012	2011	2010	2009	2008
Primary Government					
General Government					
Department of Administration					
Buildings	120	117	129	129	129
Parking lots	25	25	76	23	49
Parking spaces	7,877	8,314	8,813	7,408	8,477
Motor Fleet vehicles	7,538	8,145	8,341	8,784	9,090
Health and Human Services					
Mental Health Institutions	11	11	12	13	12
Number of certified beds	4,314	4,331	4,688	4,346	4,932
Environment and Natural Resources					
Department of Environment and Natural Resources					
Number of state park lands	35	35	35	35	34
Acres of state park lands	152,578	150,807	148,897	144,806	140,254
Number of state recreation areas	4	4	4	4	4
Acres of state recreation areas	12,240	12,240	12,240	12,240	12,240
Number of state natural areas	20	20	19	19	17
Acres of state natural areas	22,254	22,145	20,833	20,910	20,281
Number of state lakes	7	7	7	7	7
Acres of state lakes	29,135	29,135	29,135	29,135	29,135
Zoo animals (a)	1,593	1,355	1,569	1,565	1,723
Vehicles (g)	918	1,980	1,947	1,912	1,862
Boats/trailers (g)	1,269	1,480	1,416	1,390	1,325
Aircraft (g)	3	40	47	47	48
Scientific equipment	4,806	5,467	5,262	5,058	4,702
Wildlife Resources Commission					
Number of game lands	62	62	61	59	58
Acres of game lands	480,257	480,257	475,212	468,570	471,248
Public Safety, Corrections and Regulation (f)					
Department of Public Safety					
Close security prisons	14	14	14	14	13
Medium security prisons	23	23	23	26	26
Minimum security prisons	29	33	33	39	39
Youth facilities	15	16	17	17	14
Vehicles:					
Passenger/cargo vans	152	106	108	118	131
Inmate transfer vans/buses	506	493	608	511	541
Inmate workcrew vans/buses	239	243	276	291	306
Pickup trucks	381	349	353	351	361
Roving patrol pickups	91	92	103	89	100
One ton maintenance trucks	123	95	115	108	104
Specialty/other trucks (b)	105	129	119	114	129
Enterprise Vehicles:					
Passenger/cargo vans	14	17	18	22	23
Inmate workcrew buses	20	23	25	26	28
Pickup trucks	49	49	54	59	52
One ton maintenance trucks	24	21	22	22	20
Other/specialty trucks	110	103	101	103	104

Table 19

2007	2006	2005	2004	2003
135	136	134	132	132
49	49	17	18	20
8,215	8,156	7,879	7,961	8,249
9,506	10,785	16,145	14,592	13,190
12	12	12	12	12
4,961	5,009	4,885	5,083	5,220
33	32	32	30	30
119,664	222,251	182,251	176,146	173,833
4	4	4	4	4
12,240	12,240	12,240	12,240	12,240
18	14	17	17	16
34,288	32,930	30,513	30,323	28,999
7	7	7	7	7
29,135	29,135	29,135	29,135	29,135
1,786	1,942	2,024	2,643	2,411
1,789	1,723	1,618	1,574	1,471
1,295	366	327	308	278
45	30	40	40	39
4,666	4,454	3,979	3,572	3,366
54	38	37	35	34
431,449	341,351	317,467	325,794	288,238
13	13	13	16	13
26	26	26	24	24
39	39	37	36	36
14	14	14	15	15
172	99	85	69	67
487	481	418	398	391
274	301	380	394	349
353	287	275	325	248
80	84	78	77	64
106	105	92	98	99
113	103	113	108	103
22	23	24	31	29
24	21	22	21	25
51	47	51	41	45
18	18	16	21	18
98	93	95	86	91

Continued

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2003-2012

	2012	2011	2010	2009	2008
Department of Public Safety					
Vehicles:					
Alcohol Law Enforcement					
Cars/SUV's	202	174	156	156	150
State Highway Patrol					
Cars	2,214	2,422	2,692	2,692	2,722
Trucks/vans	124	126	128	128	111
Motorcycles	26	25	19	19	16
Air craft:					
State Highway Patrol					
Helicopters	9	7	8	8	8
Transportation					
Department of Transportation					
Pavement in lane-miles:					
Primary subsystem	(d)	15,002	14,952	14,919	14,885
Secondary subsystem	(d)	64,413	64,378	64,267	64,553
Bridges:					
Number of bridges	13,583	13,531	13,251	13,222	13,152
Number of culverts	4,710	4,730	5,056	5,007	5,004
Vehicles	8,997	8,337	8,422	9,349	8,850
Heavy equipment	13,827	12,703	12,647	13,216	12,116
Component Units					
Higher Education					
Community Colleges					
Buildings	1,174	1,161	1,134	1,097	1,046
Universities					
Academic/administrative buildings	1,011	993	962	933	911
Dormitories/auxiliary buildings	680	654	640	560	523
Medical (e)	52	31	37	39	58
University System Hospitals					
Administration	11	4	4	4	4
Clinical	14	12	11	12	11
Facility services	6	6	6	6	6
Hospital	6	6	6	5	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

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

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

Table 19

2007	2006	2005	2004	2003
151	156	134	154	124
2,530	2,417	2,283	2,312	1,799
115	114	59	63	65
16	9	(c)	(c)	(c)
8	13	14	11	11
14,871	14,833	14,805	14,760	14,705
64,390	64,209	64,204	64,085	63,910
13,053	13,007	12,961	12,916	12,839
4,979	4,912	4,879	4,761	4,683
8,850	5,823	6,347	7,466	7,015
8,920	3,119	3,359	3,788	3,741
1,024	1,014	1,025	1,064	1,054
971	930	918	893	873
613	583	565	537	524
58	51	51	51	51
4	4	4	4	4
11	10	10	10	10
6	6	6	6	6
4	4	4	4	4

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 2003-2012

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, 2003-2012 *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.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1) Required contribution and investment revenue:										
Earned	$12,255	$10,826	$16,219	$12,538	$14,509	$18,430	$18,054	$20,337	$16,257	$20,699
Ceded	3,396	3,121	2,380	2,489	3,077	2,371	3,642	3,852	3,576	3,717
Net earned	8,859	7,705	13,839	10,049	11,432	16,059	14,412	24,189	19,833	24,416
2) Unallocated expenses	3,953	3,689	2,951	3,092	3,672	664	680	659	666	701
3) Estimated claims and expenses, end of policy year:										
Incurred	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304
Ceded	—	—	—	—	—	—	—	—	—	—
Net incurred	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304
4) Paid (cumulative) as of:										
End of policy year	1,921	10,381	3,129	3,130	15,174	1,426	1,746	1,502	5,505	6,992
One year later	2,765	12,788	3,536	4,005	19,270	2,016	2,149	2,082	13,090	
Two years later	3,219	13,120	3,536	4,005	19,270	2,016	2,149	2,082		
Three years later	3,681	13,120	3,536	4,005	19,270	2,016	2,149			
Four years later	3,681	13,120	3,536	4,005	19,270	2,016				
Five years later	3,681	13,120	3,536	4,005	19,270					
Six years later	3,681	13,120	3,536	4,005						
Seven years later	3,681	13,120	3,636							
Eight years later	3,681	13,120								
Nine years later	3,681									
5) Reestimated ceded claims and expenses	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783	20,340	19,304
One year later	3,543	12,911	2,093	3,096	11,348	1,653	2,276	1,846	27,242	
Two years later	3,947	12,911	2,093	3,096	11,348	1,979	2,269	1,846		
Three years later	3,947	12,911	2,093	3,096	11,348	1,979	2,269			
Four years later	3,947	12,911	2,093	3,096	11,348	1,979				
Five years later	3,947	12,911	2,093	3,096	11,348					
Six years later	3,947	12,911	2,093	3,096						
Seven years later	3,947	12,911	2,093							
Eight years later	3,947	12,911								
Nine years later	3,947									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	1,257	325	—	—	(3,567)	261	16	63	6,902	—

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