North Carolina

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2010

Cover Photos:

Photos courtesy of Tryon Palace, North Carolina Department of Cultural Resources

The Office of State Controller is proud to feature Tryon Palace in New Bern, North Carolina on the cover of the 2010 CAFR. New Bern celebrated its 300th anniversary in 2010 and the centerpiece of the festivities included the Tryon Palace.

Pictured on the cover is the Governor's Palace, which was also the grandest public building in all the colonies. Royal Governor William Tryon and his family brought architect John Hawks from London to design and build the Georgian style structure. Completed in 1770, Tryon Palace served as the first permanent capitol of North Carolina and home to the Tryon family.

Tryon Palace was the site of the first sessions of the general assembly for the State of North Carolina following the revolution and housed the state governors until 1794. In 1798, fire destroyed the original Palace building. An extensive 30-year campaign to rebuild the Palace and restore the grounds was launched by the people of New Bern, state leaders, world craftsmen, and generous, dedicated citizens such as Mrs. James Edwin Latham. Their efforts led to the triumphal reopening of the palace in 1959. Today, the Palace lives on as a testament to history, community and rebirth.

Also featured are the gardens. When you stroll down the Tryon Palace garden paths you step back into a bygone era. This historic site features 16 acres of gardens designed by noted landscape architect Morley Jeffers Williams in the 1950s and represents the formal garden style of 18th-century Britain.

In the fall, the formal parterres of the Maude Moore Latham Garden and the Gertrude Carraway Garden will each have elaborate displays of mums. The spring display includes daffodils, tulips and many other spring flowers. The Kellenberger Garden reflects the colonial era with an arrangement of marigolds and celosia, which were popular in the 18th century, and cool-season vegetables will be ready for winter in the Kitchen Garden.

Also included in the site are gardens surrounding three historic houses – one with a formal lawn and camellia collection, town garden and swept yard/working garden. Three additional gardens reveal the splendor of the Victoria era.

The Etteinne Mitchell Riverside Garden includes a diversity of native plants which are both beautiful and play an important role in the ecosystem. The plants selected survive both periods of flooding and of dry soil, and provide food and shelter for numerous animals.

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

BEVERLY E. PERDUE
GOVERNOR

DAVID T. MCCOY
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

http://www.osc.nc.gov

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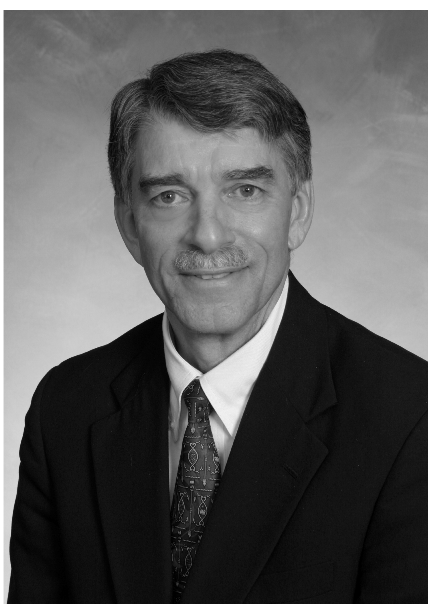
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.

BEVERLY E. PERDUE
Governor of North Carolina



REPRESENTATIVE JOE HACKNEY
Speaker of the House
North Carolina General Assembly

SENATOR MARC BASNIGHT
President Pro Tempore
North Carolina General Assembly

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For the Fiscal Year Ended June 30, 2010

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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

It is our pleasure to furnish you with the 2010 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.40H. 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 State law, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

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

Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 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 9.5 million, making it the 10th most populated state in the nation. Sixty percent of the population is found in urban areas, while forty percent is found in rural areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on our western border. There are 79,186 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...."

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

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

State Reporting Entity and Its Services

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

The State and its component units provide a broad range of services to its citizens, including k-12 public education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

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

Economic Condition

Overview

At the start of FY 2009-10, the economy was coming out of the worst recession since the Great Depression. The National Bureau of Economic Research officially dated the end of the recession as June 2009. Nevertheless, economic conditions in the State, as well as the nation, did not reflect a recovering economy as employment losses continued to grow and consumer sentiment remained depressed. Moreover, given the depth of the recession, it was not surprising that the nation would continue to feel the impact of the economic contraction well past its official end.

Both employer and consumer sentiment showed little signs of the economic recovery that was underway. Coming out of a deep recession, a robust recovery similar to what occurred after the 1981-82 recession (6% quarterly growth) might be expected. However, each quarter of this fiscal year exhibited far less than a robust or even modest expansion. The key reason for the sluggish economic recovery was the structural problems in the housing and financial markets that sent us into a recession. These structural problems take much longer to correct and are historically followed by much slower, prolonged recovery phases.

During the fiscal year, the State's economy lost an additional 19,500 private sector jobs and total wage and salary income continued to fall. By the end of the fiscal year, there were 240,000 fewer people employed than at the start of the recession. Annual growth in total wage and salary income fell 4.5 percent the first quarter of the fiscal year and had only a slight rebound to 1.1 percent in the last quarter. It is anticipated that both employment and income will grow for the rest of 2010, but at a very sluggish rate. Moderate job growth is not expected until mid-2011, which will result in high unemployment rates for all of 2010 and most, if not all, of 2011.

National Economic Outlook

United States Economic Indicators

	FY2008-09 Actual	FY2009-10 Actual	FY2010-11 Projected	FY2011-12 Projected
Economic growth (GDP)*	-2.80%	0.70%	2.60%	4.30%
Personal Income	0.50%	0.30%	2.90%	5.70%
Corporate Pre-Tax Profits	-28.00%	39.80%	10.90%	8.40%
Retails Sales and Food Services	-6.90%	1.70%	4.50%	6.90%
CPI	1.40%	1.00%	1.20%	2.30%
30-yr Fixed Mortgage Interest Rate	5.60%	5.00%	4.60%	5.90%

Adjusted for inflation

The aftermath of the global financial crisis and the subsequent sovereign debt problems in Europe placed a significant drag on the nation's economy causing weak economic conditions to persist throughout the fiscal year. The economy remains weakened and the nation's prospects are for subpar economic growth for all of 2010 and into 2011.

The national economic indicators convey the impact the recession had on the nation and the abysmal rate of the recovery experienced during the fiscal year. Going forward, little growth is expected over the next two years and the projected recovery in the economy is not expected to be in full swing until calendar year 2011. The overall economy provided almost no growth in economic activity, as measured by GDP, recording only a 0.7 percent increase in FY 2009-10. The economy shrank in the third quarter of 2009 by 2.7 percent and by the second quarter of 2010 had rebounded with 3.0 percent growth. As noted, little economic growth is expected in FY 2010-11 as a very slow recovery unfolds with only 2.6 percent growth expected. The following fiscal year, FY 2011-12, economic growth is expected to outpace the long-term average growth rate of 3 percent. Most of that growth is forecast to occur in calendar year 2012.

The lower than average economic growth during the early part of the recovery meant significant improvements in income and employment were going to take a longer time to develop. With the sluggish economic recovery and the continued losses in employment, total personal income rose by only 0.3 percent in FY2009-10. While employment losses had abated at the start of 2010, employment gains will remain weak and personal income is only expected to grow 2.9 percent in FY 2010-11.

Additionally, given the projection for a slow recovery, business profitability, which saw a major rebound in FY 2009-10, is expected to level-off over the next couple of years. Many businesses coming out of the recession were bolstered by a global economic recovery. Export demand grew significantly early in the fiscal year improving the balance sheets for many businesses. The subsequent sovereign debt crisis, which mostly affected European countries, has softened export growth and lowered expectations for continued profit growth over the next couple of years. The result has been business investment has softened and hiring decisions have been put on hold. With the prospect of a slow-building recovery, a robust business climate may still be a year away.

A good indicator on the health of the economy is retail sales. This key indicator experienced very little growth in FY 2009-10, despite coming off the sizable decline of 6.9 percent the preceding fiscal year. Consumers have been hit hard during this economic downturn as household wealth declined, credit markets tightened, inflation-adjusted wages fell, and the employment picture remained cloudy. Two keys to a rebound in consumer spending will be a stabilized real estate and financial market, and most importantly an improving employment picture.

To summarize, the Great Recession that began December 2007 and ended June 2009, continued to impact economic conditions for most of the fiscal year. Part of what was fueling economic growth, a global economic recovery, was set back with the realization of sovereign debt issues plaguing many industrialized nations. Thus, an already projected slow recovery was dragged down even further. This set the stage for a sluggish recovery with economic conditions marked by high unemployment and lower consumer spending. Conditions which are expected to persist for all of 2010 and into 2011. A robust economy is not anticipated until the later part of 2011 or the beginning of 2012.

North Carolina Economic Outlook

North Carolina Economic Indicators

	FY2008-09 Actual	FY2009-10 Actual	FY2010-11 Projected	FY2011-12 Projected
Personal Income	0.40%	1.10%	3.30%	5.50%
Wages & Salaries	-1.20%	-1.90%	4.00%	5.90%
Retail Sales	-7.40%	1.60%	4.90%	5.30%
Unemployment Rate	8.70%	10.80%	9.70%	9.50%
Employment (Nonagricultural)	-6.20%	0.90%	1.40%	2.40%
Existing Single-family Home Sales	-31.30%	10.50%	15.70%	9.30%
Average Hourly Earnings: Manufacturing	2.80%	1.40%	-2.10%	-1.70%

For North Carolina, as with the nation, the end of the recession did not portend an end to employment and income losses. While the recession had technically ended, many key economic indicators suggested recession-like conditions were still with us. What little rebound there was in employment came mostly from temporary hiring for the decennial 2010 census. Private employment was down 19,500 jobs at the end of the fiscal year.

Employment losses had initially been tied to the housing related markets, but were now widespread affecting all industrial sectors. The majority of the job losses occurred early in the fiscal year with further declines in both employment and income abating as the year progressed.

Thus, for FY 2009-10, state economic indicators reflect the easing of the downturn's intensity across the State. Personal income rose 1.1 percent, but the increase pales in comparison to the robust growth of 6 to 7 percent experienced several years earlier. The small amount of growth was bolstered by federal transfer payments such as unemployment insurance payments. Wage and salary income plummeted with a loss of 1.9 percent for the year. The fall in wage and salary income was consistent with employment losses the State had been experiencing. The second half of the fiscal year saw a rebound in wage and salary income with growth close to 2 percent. Going forward, modest growth in income is projected as employment numbers slowly begin to recover. A return in wage and salary income to long-term growth levels is forecast for 2012.

As with the nation, the worst of the recession's effects were behind us at the start of FY 2009-10. Nevertheless, residual employment problems continued to be a drain on the State's economy as evidenced by weak consumer demand. Retail sales rebounded with 1.6 percent growth after the drop of nearly 7 percent the year before. Retail sales are expected to mirror the slow, gradual improvement of the economy, but will rise above the long-term trend at the start of 2012. The increased projection in sales reflects the anticipated improvement in employment and consumer sentiment.

As the State's economy begins to turn the corner in the recovery, employment prospects are expected to improve, but a stronger employment climate is not projected until 2011. Even with the improved employment picture, growth will be slow and the unemployment rate will remain elevated in the 9 to 10 percent range.

This past fiscal year's employment situation could best be described as flat. Despite a decline in employment of over 6 percent during the recession, no job growth has occurred since its end. At the end of the fiscal year, 21,000 more people were employed in non-agricultural jobs than the year before. Total employment in the State was at 3.9 million. Much of the increase was related to temporary census jobs. The private sector losses continued to pile up with an additional 19,500 jobs lost during the fiscal year. Total employment was down by over 245,000 from the start of the recession at the end of the fiscal year.

By the end of calendar year 2010, only a few industries are expected to experience growth over the previous year with net employment rising at just under 1 percent. For 2011, only modest improvement is expected with employment increasing at well below 2 percent. This level of growth will not be sufficient to lower the unemployment rate significantly, and the rate is projected to average 9.5 percent for FY 2011-12.

In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 percent per quarter. The State's manufacturing sector again was vulnerable to the recession and job losses in this industry sector reached double-digit levels. By the end of the fiscal year, there were almost 100,000 fewer manufacturing jobs than at the start of the recession. The fall in hourly wages for this sector is reflective of the weak employment conditions. Another hard hit industry has been the financial sector. The financial market upheaval has had a detrimental impact on this sector's employment, but it began to rebound the first half of 2010.

The severity of the housing recession is clearly indicated by the 31.3 percent decline of existing-home sales in FY 2008-09. The housing recession and the subsequent adjustments in the real estate market continue to take a long time to unwind. A projected turnaround in residential markets is expected in 2011 as market corrections take hold. Tough credit conditions, exacerbated by mounting foreclosures, will prolong the return to a solid housing market. The anticipation that low mortgage interest rates will continue helps with the recovery and the gradual return to a stable housing sector.

The economic recovery got underway at the start of FY 2009-10; however, recession-like conditions remained throughout the year. The recession was largely due to structural imbalances in the housing and financial sectors. These imbalances, which have had a profound affect on the State's economy, will take a long time to correct. A return to a full expansionary economy is not projected to occur until four years after the onset of the recession.

Once the economic recovery is on solid footing, North Carolina's economy is expected to expand at a faster pace than the nation. Until then, the State is expected to experience elevated unemployment, weak consumer spending, and a soft housing market. The employment conditions in manufacturing and construction industries are not expected to turnaround until the later part of 2011. Growth in other industries, especially service and trade industries are projected to rebound a littler sooner providing a stimulus for future economic growth in the State.

— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 28, 2010

Issues and Observations

Managing State Government in Challenging Times

We are in historically difficult times. Our situation certainly requires that we do an extensive self-examination and evaluation related to how we govern in North Carolina. In examining our state government's effectiveness, there are unique perspectives that can be explored by thinking about why we have government, and then how we would structure our government if we had a chance to begin anew. It is obviously difficult to envision all the possibilities and variations on such an approach, but at a high level, much can be gained by examining the possibilities and understanding the possible limitations of current thinking. In some cases, we may find new and better ways to govern, and in other instances we may find that we are already where we need to be in our effort to deliver government to our citizens, while still acknowledging that something different is not always better.

Delivery of services and investment in our state

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family. North Carolina is the 10th most populated state in the United States. Our citizens demand services. Our ability to provide acceptable levels of primary, secondary, and higher education, health and human services, corrections, commerce, agriculture, economic development, health and safety, and transportation, is paramount to maintaining the high standard of living and the value of working and doing business in North Carolina.

- North Carolina's population has grown by 1.47 million, or 18.2 percent over the last 10 years.
- Road lane miles have grown by 1,208 miles, or 1.5 percent since 1999, with an additional 445 bridges since 2002.
- State Highway Patrol vehicles have increased from 1,956 in 2002 to 2,847 in 2010.
- Private vehicles registered have grown from 7.1 million in 2000 to 8.2 million in 2010.
- K-12 public school enrollment has increased by 14 percent, from 1.286 million in 2002 to 1.466 million in 2010.
- University enrollment has increased by 63,660, or 46.8 percent over the last 10 years.
- Community college enrollment has increased by 95,772, or 63.5 percent over the last 10 years.
- Medicaid beneficiaries have grown by 179,989, or 11.7 percent over the last 6 years.
- Food stamps recipients have increased by 503,491, or 63.6 percent over the last 6 years.
- Incarcerated or supervised offenders have increased by 7,246 over the last 8 years.
- The number of employed have grown by 283,899, or 7.5 percent over the last 10 years. However, the number of unemployed has grown by 320,857, or 236.4 percent. In 2010, the unemployment rate is near 10 percent. The unemployment rate was only 3.4 percent in 2000.
- Positions funded by the State budget have increased overall by 34,825, or 12.3 percent over the last eight years. The largest areas of position growth occurred related to primary and secondary education, 14,004 (10 percent); universities, 12,098 (24.4 percent); community colleges, 4,771 (34.2 percent); and health and human services, 2,103 (11.2 percent).
- 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 102,938 in 2000, to 156,791 in 2010, an increase of 53,853, or 52.3 percent. Active employees included in TSER have grown to 323,580, a 13.2 percent increase during the same period. There are an additional 97,474 former employees that will be eligible for retirement benefits in the future.
- State debt has increased from $2.5 billion in 2000, to $8.1 billion in 2010, an increase of $5.6 billion, or 223.5 percent. Debt per capita has grown from $324 per capita to $853 per capita.

How we fund state government

- The taxpayer burden related to individual income tax has shifted by 9.7 percent from those earning less than $75,000, to those earning more than $75,000 over the last 10 years.
- The average effective state individual income tax rate has ranged from 2.8 percent to 3.4 percent over the last 10 years.

- Certain tax increases are scheduled to expire. A temporary increase in the general state rate of sales and use tax from 4.5% to 5.5%, became effective September 1, 2009. The increase is scheduled to expire on July 1, 2011. An individual income tax surcharge of 2% or 3% was imposed on taxpayers who met certain income requirements. The surcharge expires for taxable years on or after January 1, 2011. A corporate income tax surcharge of 3% was imposed on corporations subject to income tax. The surcharge expires for taxable years on or after January 1, 2011.
- Given the high level of unemployment, our obligations continue to grow related to the payment of unemployment benefits and the growing balance owed to the federal government. At June 30, 2010, North Carolina owed $2.15 billion of federal unemployment account advances.

Political environment
Economic and demographic impact and trends
The political environment is ever-changing at each level of government be it at the local, state, or federal level, and each state is varied in its approach as to what needs are addressed at the state or local government level.

North Carolinians have strong and well thought-out opinions and positions on all the topics and concerns of the day. Historically, we have benefitted from strong, focused, and forward-thinking leadership. As we navigate through difficult times, we need to not only be certain to take advantage of the leadership resources at our disposal, but to also continue to develop new leadership.

The economic and demographic trends in North Carolina will be the major drivers related to who we are able to provide services to and how we will provide those services. The extent to which we can provide the required services will be driven by the effects of our economy on our state's tax base.

Organizational responsiveness, flexibility, and effectiveness
Any large organization, such as our state government, must have structure and leadership. Such a large organization must know what its priorities are and be capable of developing strategies to implement those priorities. The structure and management of such a large entity must be able to absorb feedback and improve effectiveness and efficiency of service delivery based on that feedback. With these thoughts in mind, ultimately, we must demonstrate adaptability to the needs of the citizens of North Carolina.

Stewardship over tax dollars- Accounting, reporting, and responsibility
We have many outstanding public servants in North Carolina at each level of government. As public servants we have a strong belief in, and understanding of, what it means to be stewards of the taxpayer's dollars. However, we must continually examine ourselves and the work we do related to our stewardship responsibilities. Are we being the stewards that we need to be? Are dollars being spent wisely? Are we investing in North Carolina and its citizens?

Risk management
With changes in structure, leadership, and funding resources, and with related process and service delivery changes, we must be vigilant in our efforts to manage change, to identify risk, and then to limit and manage the risks identified.

Other Post-Employment Benefits: Retiree Healthcare

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

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

The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay the retiree health benefit. Based on the current funding method with limited accumulation of funds, the actuarial assumptions reflect a short-term discount rate of 4.25 percent. The December 31, 2009 actuarial valuation using the projected unit credit cost method indicated an accrued liability of $33.322 billion for the retiree healthcare plan ($32.765 billion unfunded), with an annual required contribution (ARC) of $3.019 billion.

Participating employers in the retiree health care benefit plan include the primary government state employees, local education agencies (LEAs), the University of North Carolina System, community colleges, and several local governments. For the fiscal year ended June 30, 2010, retiree healthcare employer contributions were $678.769 million, representing an annual increase of 6.78 percent Retiree healthcare premium costs paid to the State Health Plan were $577.412 million, representing an annual increase of 13.08 percent. Plan net assets of $606.036 million represent an increase of $105.792 million, or 21.15 percent from the prior year.

North Carolina Office of Economic Recovery and Investment

On February 17, 2009, the Governor announced the creation of the North Carolina Office of Economic Recovery and Investment. To ensure transparency, accountability and efficiency the office was charged with coordinating and tracking North Carolina's handling of federal stimulus funds as well as state-level economic recovery initiatives.

The Economic Recovery and Investment Office responsibilities include:

- Track all federal dollars flowing into state and local governments as well as to private businesses and non-profit organizations.
- Maximize the state's use of available federal stimulus funds.
- Identify the most rapid ways to move the stimulus money into the economy and remove regulatory and other impediments.
- Establish open and effective lines of communication with federal and state agencies, local governments and North Carolina's Congressional delegation to assist in efforts to effectively and rapidly use the federal stimulus funds.
- Develop a communications network, using a variety of tools including the Internet, to keep the public informed about the status and progress of the recovery effort, along with funding opportunities.
- Report to the General Assembly and the citizens on a regular basis about the status of the use of the stimulus funds, including federal, state and other non-federal money.
- Measure progress of the recovery effort by tracking the state's economic condition.

Please see http://ncrecovery.gov/ for additional information.

Economic Development

North Carolina is home to the nation's Top Business Climate for 2010, according to the November 2010 issue of *Site Selection* magazine. For the ninth time in the last 10 years, *Site Selection* has awarded this distinction to the Tar Heel State. This year North Carolina also ranked first in the Executive Survey.

Site Selection's ranking process is based on research, part of which is taken from a survey of corporate real estate executives. Half of the final score is based on performance in *Conway Data's New Plant Database*, which tracks the activity of new and expanded business facilities. The second half of the tally is derived from a survey of corporate site selectors from across the nation. Site selectors ranked the factors most important to them when choosing a location for a new business facility and the top three factors for 2010 are workforce skills, transportation infrastructure and state and local tax schemes. The conclusion: North Carolina's overall climate for capital investment is the best in the country.

According to the research results, North Carolina's strengths include its extensive higher education resources, workforce training initiatives, moderate climate and transportation infrastructure, which includes extensive sea, rail and highway assets.

Site Selection Magazine's Top 10 State Business Climates 2010	Executive Survey Business Climate Rankings 2010
1. North Carolina	1. North Carolina
2. Tennessee	2. Texas
3. Texas	3. Georgia
4. Virginia	4. Tennessee
5. South Carolina	5. South Carolina
T6. Georgia	6. Florida
T6. Ohio	7. Louisiana
8. Indiana	8. Virginia
9. Louisiana	9. Alabama
10. Alabama	10. Arizona

Debt Affordability

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

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

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the 16th consecutive year (1994 to 2009) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

Acknowledgments

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 981-5454.

Respectfully submitted,

David T. McCoy
State Controller

December 8, 2010

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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, 2009

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

President

Executive Director

ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

EXECUTIVE BRANCH

Council of State

Governor
Beverly E. Perdue

Lieutenant Governor
Walter Dalton

Secretary of State
Elaine F. Marshall

State Auditor
Beth Wood

State Treasurer
Janet Cowell

Superintendent of Public Instruction
Dr. June St. Clair Atkinson

Attorney General
Roy A. Cooper, III

Commissioner of Agriculture
Steven W. Troxler

Commissioner of Labor
Cherie K. Berry

Commissioner of Insurance
Wayne Goodwin

Cabinet Secretaries — Appointed by the Governor

Administration
Moses Carey, Jr.

Correction
Alvin Keller, Jr.

Crime Control and Public Safety
Reuben F. Young

Cultural Resources
Linda A. Carlisle

Commerce
J. Keith Crisco

Environment & Natural Resources
Dee Freeman

Health and Human Services
Lanier M. Cansler

Juvenile Justice and Delinquency Prevention
Linda W. Hayes

Revenue*
Kenneth R. Lay/ 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

Erskine B. Bowles
President

*Secretary Kenneth R. Lay resigned effective October 22, 2010. Secretary David W. Hoyle assumed the duties of Secretary of Revenue on October 26, 2010.

LEGISLATIVE BRANCH

General Assembly

Senate

President
Lieutenant Governor Walter Dalton

President Pro Tempore
Marc Basnight

Deputy Pres. Pro Tempore
Charlie Smith Dannelly

Majority Leader
Martin L. Nesbitt, Jr.

Minority Leader
Philip E. Berger

House of Representatives

Speaker
Joe Hackney

Speaker Pro Tempore
William L. Wainwright

Majority Leader
L. Hugh Holliman

Minority Leader
Paul Stam

JUDICIAL BRANCH

North Carolina Supreme Court

Chief Justice
Sarah Parker

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Honorable 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, 2010, 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 3 percent and 25 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Turnpike Authority, which is a major enterprise fund and represents 30 percent and 0.33 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 7 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 19 percent, 3 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.
- The financial statements of the 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.
- 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 of the Supplemental Retirement Income Plan of North Carolina, which represent 6 percent, 6 percent, and 7 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information.

The financial statements 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 Audit Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23 to the financial statements, the State implemented Governmental Accounting Standards Board Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53 - *Accounting and Financial Reporting for Derivative Instruments* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2010 on our consideration of the State of North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and on compliance and other matters will be published at a later date in the State of North Carolina's *Single Audit Report*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The introductory section, the combining fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 8, 2010

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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, 2010. 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 $536.491 million or 1.72% as a result of this year's operations. Net assets of governmental activities increased by $1.817 billion, or 5.98%, due in part to temporary tax increases. Net assets of business-type activities decreased by $1.28 billion, or 146%, due to a substantial operating loss in the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled $32.204 billion and negative $404.403 million, respectively.

— Component units reported net assets of $17.328 billion, an increase of $1.037 billion or 6.36% 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 deficit of the General Fund improved from negative $777.573 million at June 30, 2009 (as restated) to negative $114.168 million at June 30, 2010. This improvement is attributable to temporary tax increases, agency allotment reductions, and receipt of federal recovery funds.

— The fund balance of the Highway Fund decreased from $1.025 billion at June 30, 2009 (as restated) to $848.599 million at June 30, 2010, a decrease of 17.18%.

— The fund deficit of the Highway Trust Fund improved from negative $194.005 million at June 30, 2009 (as restated) to negative $20.137 million at June 30, 2010.

— The net assets of the Unemployment Compensation Fund decreased from negative $299.281 million at June 30, 2009 (as restated) to negative $1.701 billion at June 30, 2010. The decrease is directly related to decline in the state and national economies. The state unemployment rate was 10% in June 2010.

— Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 10.61% from the previous fiscal year to $1.42 billion. As required by law, the Lottery's net profit of $432.205 million was transferred to the Education Lottery Fund (nonmajor special revenue fund) to support educational programs.

— The N.C. Turnpike Authority issued $691.558 million in bonds and notes to finance the Triangle Expressway, North Carolina's first modern toll road now under construction.

Capital Assets:

— The State's investment in capital assets (net of accumulated depreciation) was $37.788 billion, an increase of 4.65% from the previous fiscal year-end.

— This year's major capital asset additions were for State highway system construction ($1.8 billion), toll road construction ($259 million), construction of correctional facilities ($102.3 million), and construction of the Green Square Complex ($32 million). Additionally, the N.C. Museum of Art opened a new building to showcase its permanent collection (construction cost of $72 million).

Long-term Debt:

— The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of $8.096 billion, an increase of 12.73% from the previous fiscal year-end. The State issued $487.7 million of general obligation public improvement bonds and $242.52 million in grant anticipation revenue vehicle bonds for its governmental activities. Additionally, the State issued $691.558 million in bonds and notes for the N.C. Turnpike Authority, a business-type activity.

— North Carolina remains one of only seven states to enjoy top-tier rankings (i.e., AAA) from all three credit rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (General Fund budgetary schedule, pension and other postemployment benefits funding progress and contributions) and other supplementary information (combining financial statements) in addition to the basic financial statements. These components are described below.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Assets (page 54) presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 56 and 57) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:
Governmental Activities – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.

Business-type Activities – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities.

Discretely Presented Component Units – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 76. All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 165 and 166).

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 192 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; 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 74 of this report.

Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Over time, increases or decreases in net assets serve as a useful indicator of whether a government's financial position is improving or deteriorating. The State's combined net assets increased $536.491 million or 1.72% over the course of this fiscal year's operations. The net assets of the governmental activities increased $1.817 billion or 5.98% and business-type activities decreased $1.28 billion or 146%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2010 and 2009
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009 (as restated)	2010	2009 (as restated)	2010	2009 (as restated)
Current and other non-current assets	$ 9,429,629	$ 9,911,105	$ 2,689,996	$ 1,861,267	$ 12,119,625	$ 11,772,372
Capital assets, net	37,452,024	36,035,245	336,122	73,924	37,788,146	36,109,169
Total assets	46,881,653	45,946,350	3,026,118	1,935,191	49,907,771	47,881,541
Long-term liabilities	8,931,687	8,675,751	2,871,240	748,074	11,802,927	9,423,825
Other liabilities	5,745,768	6,883,242	559,281	311,170	6,305,049	7,194,412
Total liabilities	14,677,455	15,558,993	3,430,521	1,059,244	18,107,976	16,618,237
Net assets:						
Invested in capital assets, net of related debt	35,452,614	34,101,091	158,556	73,924	35,611,170	34,175,015
Restricted	704,712	714,014	1,078,689	1,003,613	1,783,401	1,717,627
Unrestricted	(3,953,128)	(4,427,748)	(1,641,648)	(201,590)	(5,594,776)	(4,629,338)
Total net assets	$ 32,204,198	$ 30,387,357	$ (404,403)	$ 875,947	$ 31,799,795	$ 31,263,304

The largest component of the State's net assets ($35.611 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 ($1.783 billion). 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 $3.953 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 $7.636 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2010, $5.39 billion is attributable to debt issued as state aid to component units (universities and community colleges) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. The policy of 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, 2010, the State's governmental activities have significant unfunded liabilities for a court judgment payable of $731.703 million and compensated absences of $420.41 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, 2010 and 2009
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009 (as restated)	2010	2009 (as restated)	2010	2009 (as restated)
Revenues:						
Program revenues:						
Charges for services	$ 2,075,743	$ 2,115,119	$ 2,564,791	$ 2,453,841	$ 4,640,534	$ 4,568,960
Operating grants and contributions	15,838,014	14,005,529	3,251,109	1,110,849	19,089,123	15,116,378
Capital grants and contributions	711,433	1,035,742	7,771	41,398	719,204	1,077,140
General revenues:						
Taxes						
Individual income tax	9,345,441	8,661,565	—	—	9,345,441	8,661,565
Corporate income tax	1,252,800	997,206	—	—	1,252,800	997,206
Sales and use tax	5,916,119	4,911,656	—	—	5,916,119	4,911,656
Gasoline tax	1,557,430	1,523,496	—	—	1,557,430	1,523,496
Franchise tax	904,651	799,113	—	—	904,651	799,113
Highway use tax	439,506	440,749	—	—	439,506	440,749
Insurance tax	506,990	500,438	—	—	506,990	500,438
Beverage tax	295,383	263,553	—	—	295,383	263,553
Inheritance tax	71,731	103,811	—	—	71,731	103,811
Tobacco products tax	278,406	242,071	—	—	278,406	242,071
Other taxes	321,945	316,819	—	—	321,945	316,819
Tobacco settlement	145,539	175,838	—	—	145,539	175,838
Unrestricted investment earnings	28,645	66,863	—	—	28,645	66,863
Miscellaneous	44,354	62,799	—	—	44,354	62,799
Total revenues	39,734,130	36,222,367	5,823,671	3,606,088	45,557,801	39,828,455
Expenses:						
General government	1,109,142	1,429,407	—	—	1,109,142	1,429,407
Primary and secondary education	9,830,182	10,079,691	—	—	9,830,182	10,079,691
Higher education	4,232,267	3,951,862	—	—	4,232,267	3,951,862
Health and human services	16,809,253	16,172,213	—	—	16,809,253	16,172,213
Economic development	716,205	636,431	—	—	716,205	636,431
Environment and natural resources	564,771	717,666	—	—	564,771	717,666
Public safety, corrections and regulation	2,693,212	2,741,308	—	—	2,693,212	2,741,308
Transportation	1,998,432	2,192,917	—	—	1,998,432	2,192,917
Agriculture	119,494	110,268	—	—	119,494	110,268
Interest on long-term debt	281,499	289,211	—	—	281,499	289,211
Unemployment compensation	—	—	5,568,561	3,255,448	5,568,561	3,255,448
N.C. State Lottery	—	—	994,168	877,403	994,168	877,403
EPA Revolving Loan	—	—	30,940	7,868	30,940	7,868
N.C. Turnpike Authority	—	—	4,990	3,847	4,990	3,847
Regulatory commissions	—	—	35,843	37,644	35,843	37,644
Insurance programs	—	—	13,284	14,986	13,284	14,986
North Carolina State Fair	—	—	12,794	13,803	12,794	13,803
Other business-type activities	—	—	9,374	7,324	9,374	7,324
Total expenses	38,354,457	38,320,974	6,669,954	4,218,323	45,024,411	42,539,297
Increase (decrease) in net assets before contributions and transfers	1,379,673	(2,098,607)	(846,283)	(612,235)	533,390	(2,710,842)
Contributions to permanent funds	3,101	3,248	—	—	3,101	3,248
Transfers	434,067	422,399	(434,067)	(422,399)	—	—
Increase (decrease) in net assets	1,816,841	(1,672,960)	(1,280,350)	(1,034,634)	536,491	(2,707,594)
Net assets - beginning - restated	30,387,357	32,060,317	875,947	1,910,581	31,263,304	33,970,898
Net assets - ending	$ 32,204,198	$ 30,387,357	$ (404,403)	$ 875,947	$ 31,799,795	$ 31,263,304

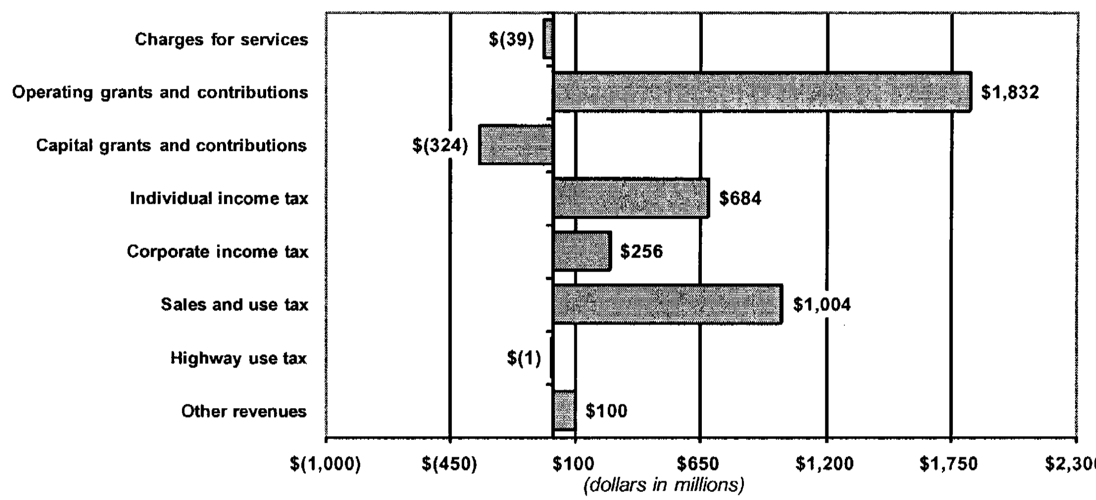
Governmental Activities

The State's total revenues for governmental activities grew more rapidly than total expenses during fiscal year 2010. Revenues increased by 9.7% ($3.51 billion), while total expenses increased less than one percent ($33.48 million). The growth in revenues is attributable mainly to temporary tax increases enacted by the General Assembly and increases in federal recovery funds (see below).

On February 17, 2009 the U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). A direct response to the economic crisis, the ARRA has three immediate goals: 1) create new jobs as well as save existing ones, 2) spur economic activity and invest in long-term economic growth, and 3) foster unprecedented levels of accountability and transparency in government spending. To help achieve these goals, the ARRA provides supplemental funding to states for budget stabilization entitlement programs, and other purposes. The ARRA specifies that funds be distributed over three years: 2009, 2010, and 2011. In response to this legislation, the Governor established the North Carolina Office of Economic Recovery and Investment to coordinate the State's handling of ARRA funds and state-level economic recovery initiatives. During the 2010 fiscal year, the State's governmental activities recognized $2.4 billion of ARRA funds (federal recovery funds), which are included in operating grants and contributions (i.e., program revenues).

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2009 and 2010:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2009 and 2010



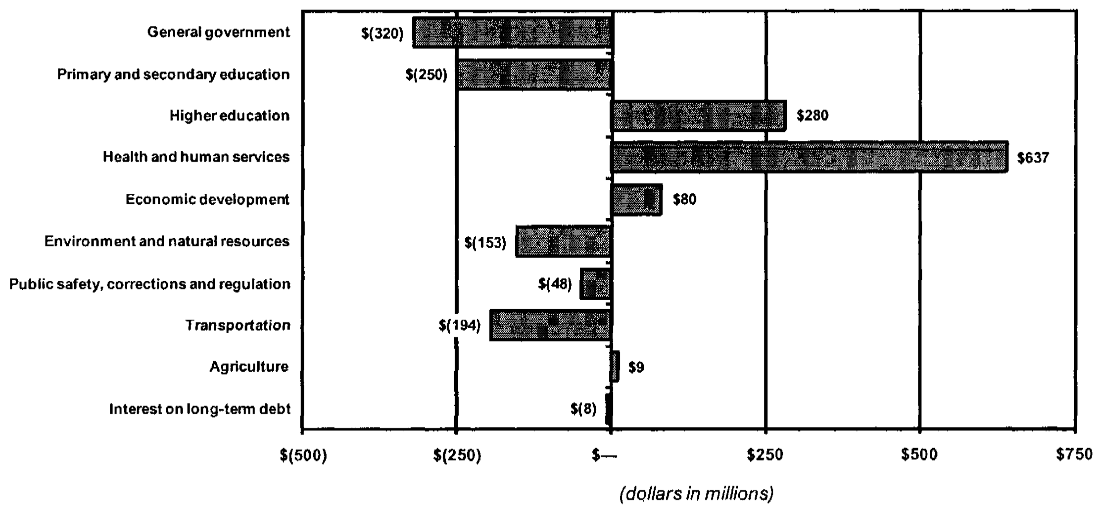
For fiscal year 2010, spending increases in the functional areas of health and human services and higher education were virtually offset by spending decreases in the State's other functional areas. The growth in health and human services is related to increased spending for Medicaid (the State's largest public assistance program). The State experienced higher enrollment in the Medicaid program due to increased unemployment and additional consumption of Medicaid services. Also, as of July 1, 2009, the State assumed 100% of the county share of Medicaid, completing the phase-out of the county share. Because the State receives federal matching funds for the Medicaid Program, there was also a corresponding increase in operating grants and contributions (i.e., program revenues).

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

The growth in higher education funding is related to unanticipated enrollment increases, particularly in the Community College System, and by larger distributions of higher education bond proceeds in fiscal year 2010. Also, the increase can be attributed to operating costs of new buildings and increased financial aid. Higher education expenses are financed primarily by State appropriations. The North Carolina State Constitution provides that "the benefits of the University North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2009 and 2010:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2009 and 2010

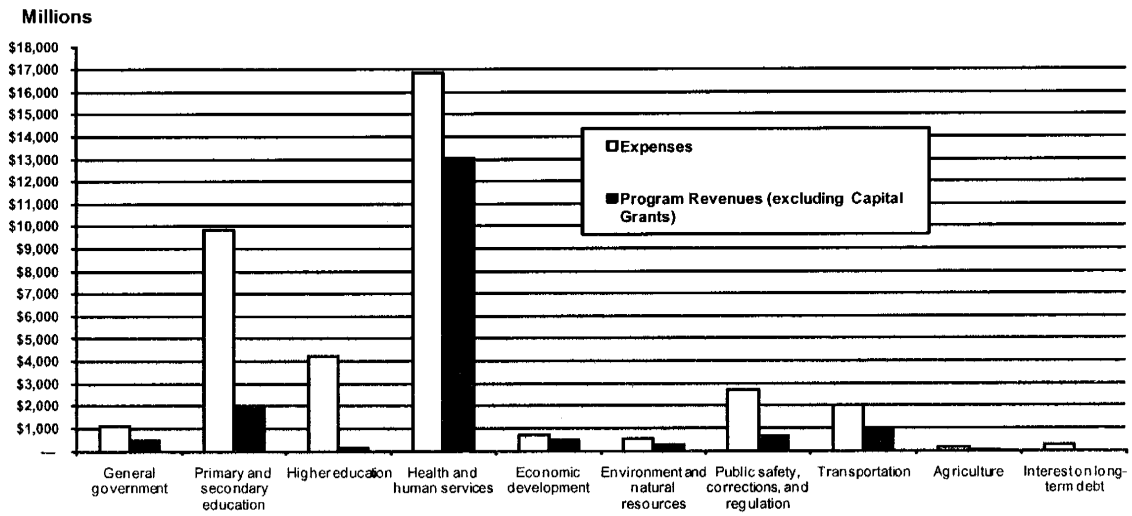


The 2007 Session of the General Assembly enacted legislation requiring the State to assume the counties' share of the nonfederal share of Medicaid costs over a three-year period, beginning October 1, 2007. To provide resources to assume these costs, the legislation phases out the local sales tax by one-half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

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

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

Expenses - Governmental Activities
Fiscal Year Ended June 30, 2010



Business-type Activities

Business-type activities reflect an overall decrease in net assets of $1.28 billion or 146%, primarily because of the financial results of the Unemployment Compensation Fund. For fiscal year 2010, the Unemployment Compensation Fund had an operating loss (excess of operating expenses over operating revenues) of $4.523 billion. During the 2010 fiscal year, the Unemployment Compensation Fund recognized $2.65 billion in federal recovery funds to provide extended benefits to unemployed workers. The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise most of the total net assets of business-type activities. The N.C. State Lottery Fund has no net assets since its net profits are distributed to the State's governmental activities, as required by statute. A more detailed discussion of the State's business-type enterprise activities is provided in the following section (see Enterprise Funds).

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.419 billion, an increase of 23.51% from the prior fiscal year-end (as restated). The primary contributor to the increase was the General Fund, which had a \$663.405 million net change in fund balance in 2010. The improvement in the General Fund is explained primarily by enacted tax increases, agency allotment reductions (i.e., holdback of budgeted funds), and the receipt of federal recovery funds.

The major governmental funds are discussed individually below.

General Fund

The General Fund is the chief operating fund of the State. The fund deficit of the General Fund improved from negative \$777.573 million at June 30, 2009 (as restated) to negative \$114.168 million at June 30, 2010. For fiscal year 2010, total tax revenues increased by 13% due mostly to temporary tax increases enacted by the General Assembly. An individual income tax surcharge of 2% or 3% was imposed on taxpayers who meet certain income requirements for tax years beginning on or after January 1, 2009. A temporary increase in the general sales tax from 4.5% to 5.5% was imposed effective September 1, 2009. Additionally, the Department of Revenue began an internet resolution program and a restaurant program to bring taxpayers into compliance in reporting and paying sales and use taxes. A corporate income tax surcharge of 3% was imposed on corporations subject to income tax for tax years beginning on or after January 1, 2009. The increase in corporate income tax collections in a down economy is due to efforts by the Department of Revenue to generate additional revenue through its Resolution Initiative Project that was completed in December 2009. This project was designed to resolve all outstanding corporate and franchise tax issues for participating taxpayers.

During fiscal year 2010, the General Fund recognized \$1.961 billion in federal recovery funds, provided under the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA includes two key funding streams for states, the State Fiscal Stabilization Fund (SFSF) and increased federal participation in Medicaid (FMAP). The SFSF is a one-time federal appropriation intended to help stabilize state and local government budgets in order to minimize layoffs and disruptions in education and other essential public services. The FMAP is a temporary increase to states in the federal share of Medicaid costs. Each state's increase in FMAP is based on the increase in unemployment percentages for each quarter. The federal recovery funds were used to avoid deeper reductions in spending.

Because of the economic volatility in the State and nation and the need to exercise fiscal constraint, the Governor on August 14, 2009 issued Executive Order No. 21, *Reduce Monthly Budget Allotments for the 2009-10 Fiscal Year*. It ordered the Office of State Budget and Management to reduce monthly allotments by 5% of each State agency's certified budget. Special exceptions were provided for constitutionally mandated or entitlement programs as well as urgent situations related to direct classroom instruction, economic development opportunities, law enforcement, health care, and public safety. The North Carolina State Constitution requires the Governor to affect the necessary economies in expenditures to maintain a balanced budget.

One of the major budget drivers for the General Fund is the Medicaid Program. In fiscal year 2010, the Medicaid Program faced the challenges of a 6% increase in enrollment coupled with growing consumption by those individuals covered by Medicaid. In response, program changes were implemented to impact costs of services without any negative impact on clinical outcomes. The specific changes included modification of drug pricing to promote generic prescribing, consolidation of case management, elimination of certain mental health residential services, and selected policy changes to bring Medicaid practices in line with commercial plans. All changes were implemented to ensure continued access to quality services and compliance with federal maintenance of effort requirements.

During the 2007 legislative session, the General Assembly enacted Session Law 2007-323, a historical fiscal policy change that began a three-year phase-out of the financial participation of county governments in covering the cost of Medicaid.

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 2009-10 was prepared approximately 18 months prior to the final budget existing at June 30, 2010. 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 2009-10 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 2008-09 totaled $103.6 million.
3) Allocation of statewide reserves to agencies and universities for the purposes of retirement and hospitalization formula adjustments, contingency and emergency, information technology related programs, and various other budgeted statewide reserves.
4) Receipt and budgeting of over-realized receipts, prior year earned revenues, and unanticipated donations and grants.
5) Inaccurate revenue and expenditure budget amounts entered by agencies during the continuation budget preparation process.
6) Budgeting of federal ARRA funds that increased the final revenue and expenditure budgets.

Variances - Final Budget and Actual Results

Actual total revenue collected (both tax and non-tax) was slightly below budgeted amounts in fiscal year 2009-10. While North Carolina's revenue forecast anticipated gradual economic improvement during the fiscal year, the economic recovery proved slower than expected. The job market, in particular, was very slow to recover, resulting in a greater than expected decline in individual income tax collections, North Carolina's largest revenue source. Sales and use tax collections finished slightly behind budget as consumers remained cautious. Corporate collections exceeded expectations as business profits improved and a settlement initiative yielded a significant revenue boost.

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

The variance between the final budget and actual expenditures for primary and secondary education; health and human services; and public safety, corrections and regulation is primarily a result of the revenue shortfall during fiscal year 2009-10. Measures taken by the Governor to prevent expenditures that exceeded the tax and non-tax revenue collections included a significant reduction in the allotment of cash to all state agencies, universities, and institutions. Therefore, expenditures that are dependent upon revenue generated by the state could not occur.

Highway Fund

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

The fund balance of the Highway Fund decreased from $1.025 billion at June 30, 2009 (as restated) to $848.599 million at June 30, 2010, a decrease of 17.18%. Total revenues decreased by $297.39 million or 10.1% primarily because of a decrease in federal fund reimbursements. However, the decrease in federal funds was partially offset by an increase in revenue from the American Recovery and Reinvestment Act (ARRA) of 2009. Many factors have contributed to the decline in revenue for the traditional federal aid program at NCDOT. This includes significant contract savings on construction projects awarded, staff concentration on inactive project analysis, time intensive small project billings prior to close, large projects accomplished by the grant anticipation revenue vehicle (GARVEE) bond program, and inflexibility of funding due to federal rescissions and other budgetary controls. Focused delivery efforts of state projects enabled NCDOT to meet ARRA maintenance of effort requirements. The Department of Transportation expects to receive $735.5 million in ARRA funds for highway infrastructure and an additional $103 million for public transportation initiatives. As of June 30, 2010, $728.1 million in ARRA infrastructure funds had been allocated to various Transportation Improvement Projects across the state and $293.344 million in federal reimbursement has been received. Additionally, in August 2010, the State issued $242.52 million in GARVEE bonds. This innovative financing tool was used to accelerate the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2010, $167.026 million of the GARVEE bond proceeds were unspent.

Transportation expenditures increased by $140.11 million or 5.33%. This was due to the increase in capital outlay, primarily contract construction expenditures. The first full year of ARRA expenditures and additional funds from the latest GARVEE bond issuance contributed to this increase.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.05 million in 2000 to 9.52 million in 2010, an increase of 18.26%. This growth is expected to continue for the foreseeable future. The U.S. Census estimates North

Carolina's population growing to approximately 12.2 million by 2030, which would place the state as the seventh most populated state in the country. According to the 2008 Report on the Condition of the State Highway System prepared by the Division of Highways, over a 10 year period (1998 to 2007), the number of paved miles increased by almost 11% and the square footage of bridge deck area grew by over 23%. During this same 10 year period, vehicle miles traveled increased by over 26%. This rapid increase in vehicle miles traveled 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 will remain in place through June 30, 2011.

Highway Trust Fund

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

The principal revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees. The enabling legislation also specifies that a designated amount will be transferred each year to the General Fund (see Note 10(B) to the financial statements). The amounts transferred to the General Fund for fiscal years 2010 and 2009 were $108.562 million and $147.53 million, respectively.

The fund balance deficit of the Highway Trust Fund improved from negative $194.005 million at June 30, 2009 (as restated) to negative $20.137 million at June 30, 2010. Total transportation expenditures decreased by $153.34 million or 23.96%. *Moving Ahead* construction expenditures decreased by $43 million as the program continues but nears completion. Secondary roads construction expenditures decreased by $49 million due to the completion of several projects including the connector route on NC 43 ($24 million decrease from FY09). *Powell Bill* expenditures were down by $5.2 million due to the decrease in Trust Fund revenues. The General Fund transfer was reduced as funds were transferred to the NC Turnpike Authority for debt service and other financing cost of the Monroe Connector/Bypass and the Mid-Currituck Bridge.

The 2008 Report on the Condition of the State Highway System also noted that since passage of the Highway Trust Fund in 1989, the Department of Transportation has paved over 10 thousand miles of unpaved secondary roads, leaving only 3,400 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. House Bill 1825, effective July 1, 2006 until June 30, 2010, allows the use of these funds, originally designated to pave secondary roads, on the paved secondary road system in order to improve their functionality through safety, modernization, and condition improvements.

Enterprise Funds

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

Unemployment Compensation Fund

The net assets of the Unemployment Compensation Fund (Trust Fund) decreased from negative $299.281 million at June 30, 2009 (as restated) to negative $1.701 billion at June 30, 2010. This decrease is directly related to the decline in the state and national economies. The state's unemployment rate was 10% in June 2010 compared to 11% in June 2009.

The Trust Fund's operating margin (operating revenues less operating expenses) was negative $4.523 billion this year compared to negative $2.177 billion in 2009. Unemployment benefit expenses increased 71.2% in fiscal year 2010 to $5.569 billion. Because of depleted cash balances, the Trust Fund borrowed funds from the U.S. Treasury, beginning in February 2009, to ensure uninterrupted payment of unemployment benefits. At June 30, 2010, the repayable advances from the State's Federal Unemployment Account totaled $2.15 billion compared to $728.77 million at the previous fiscal year-end. These advances will be repaid with subsequent employer contributions. It is anticipated that this borrowing will continue through the next fiscal year-end. The advances from the U.S. Treasury are currently interest free through December 31, 2010. Currently, discussions are taking place at the national level regarding a two year extension of the interest free provision. A 20% surcharge on unemployment contributions, effective January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger "off" level.

During this fiscal year, the federal government continued to provide various types of assistance to the unemployed. The multiple types of assistance are classified as nonoperating revenues and the dollar amounts are as follows:

1. The Emergency Unemployment Compensation program provided $2.486 billion in benefits.
2. Two programs continued this year under the American Recovery and Reinvestment Act and provided the following benefits:
   a. The Federal Additional Compensation program provides for an additional $25 a week to every benefit payment. This program totaled $448 million this fiscal year.
   b. The Extended Benefit (EB) and High Unemployment Period 100% programs provided payments that totaled $204 million this fiscal year.

N.C. State Lottery Fund

The N.C. Education Lottery (NCEL) first began selling game tickets in 2006. As required by enabling legislation, net revenues of the NCEL are transferred four times a year to the N.C. Education Lottery Fund (a nonmajor governmental fund). The NCEL transferred $432.205 million to the N.C. Education Lottery Fund in 2010 to support educational programs for the State. The amount transferred in 2009 was $413.929 million. At year end, the net assets of the NCEL are zero. The NCEL has no changes in the net assets from year to year.

For fiscal year 2010, net ticket sales increased 10.61% from the previous fiscal year to $1.42 billion. Significant financial highlights include the following: a second multi-state game, Mega Millions, was launched in January; the number of retailers increased to 6,267, representing a 4% increase over the prior year; and 42 new instant scratch-off games were created and released every two to four weeks.

The NCEL's 2010-11 budget provides for a projected $441 million transfer to the N.C. Education Lottery Fund, representing a 5% increase from the previous year's budget. As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 50% to support reduction of class size in early grades and to support prekindergarten programs for at-risk four-year-olds who would otherwise not be served in high quality settings *(Note: to date, these programs have been funded by the General Fund).*
2. 40% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

N.C. Turnpike Authority

Although the N.C. Turnpike Authority (NCTA) was created in 2002, financial activity started late in fiscal year 2004. Activities for fiscal year 2010 were limited to salaries, personnel and consultant service contract payments, board per-diem, travel, and other general operating expenses. Major accomplishments for the NCTA for fiscal year 2010 included the following:

- Completed the financing of the Triangle Expressway project by issuing $622.758 million in revenue bonds and securing a federal loan to borrow up to $386.66 million.
- Broke ground on the Triangle Expressway project, the first toll facility in North Carolina. Started construction of the Triangle Parkway section in August 2009 and the Western Wake Freeway section in December 2009. This project is on schedule and within budget.
- Awarded three toll system contracts in December 2009 to allow for electronic toll collection on the Triangle Expressway.

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

The high cost of building, operating and maintaining a major highway facility is typically more than the revenue a new road can generate through tolls. The gap between what tolling can pay for and the cost of the road requires additional support from the state, known as gap funding. In 2008, the General Assembly enacted legislation authorizing annual transfers from the Highway Trust Fund to the NCTA to pay debt service and fund required reserves on bonds issued to finance turnpike projects. In fiscal year 2010, $25 million was transferred from the Highway Trust Fund to service debt on bonds issued to finance the Triangle Expressway.

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by $81.546 million or 8.2% from the prior fiscal year-end. Operating income was $13.227 million (operating revenues less operating expenses). Net nonoperating revenues included $45.348 million in federal recovery funds, which were used to provide grants and loans for water infrastructure projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2010, the State's investment in capital assets was $37.788 billion, an increase of 4.65% 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	
	2010	2009 (as restated)	2010	2009 (as restated)	2010	2009 (as restated)
Land and permanent easements	$ 13,721,468	$ 13,186,390	$ 49,436	$ 3,453	$ 13,770,904	$ 13,189,843
Buildings	1,972,692	2,028,733	16,244	17,005	1,988,936	2,045,738
Machinery and equipment	603,644	661,096	3,838	3,985	607,482	665,081
Infrastructure:						
State highway system	18,804,142	18,032,847	—	—	18,804,142	18,032,847
Other infrastructure	97,875	102,847	5,910	6,421	103,785	109,268
Computer software	23,242	19,928	—	—	23,242	19,928
Art, literature, and other artifacts	85,239	67,184	—	—	85,239	67,184
Construction in progress	2,135,400	1,936,220	260,694	43,060	2,396,094	1,979,280
Computer software in development	8,322	—	—	—	8,322	—
Total	$ 37,452,024	$ 36,035,245	$ 336,122	$ 73,924	$ 37,788,146	$ 36,109,169
Total percent change between fiscal years 2010 and 2009	3.93 %		354.69 %		4.65 %	

The largest component of capital assets is the State highway system. North Carolina has a 79 thousand 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 2008) 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 Department of Transportation (DOT) had construction outlays of $1.8 billion for the State highway system. Additionally, the N.C. Turnpike Authority (Authority), a separate business unit of DOT, had construction outlays of $259 million. The Authority's largest project was for the Triangle Expressway, the State's first modern toll road now under construction.
- The Department of Correction had construction outlays of $102.3 million. The largest project was for the construction of a regional 120 bed medical center and a 216 bed mental health center at Central Prison in Raleigh. At year-end, additions to construction in progress for this project totaled $60 million. The expected project completion date is July 2011. The Department of Correction is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform.
- The Green Square Complex is being constructed for the Department of Environment and Natural Resources (DENR), which will include office space for DENR employees, the Nature Research Center, and an underground parking deck. This project utilizes principles of green building and sustainable design. At year-end, additions to construction in progress for this project totaled $32 million. This complex is scheduled to be completed in 2011.
- The N.C. Museum of Art opened a new building in April 2010 to showcase its permanent collection. The total construction cost was $72 million.

As further detailed in Note 22(F) to the financial statements, the State has commitments of $2.04 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 $660.73 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 of $8.096 billion, an increase of 12.73% 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	
	2010	2009 (as restated)	2010	2009	2010	2009 (as restated)
General obligation bonds	$ 5,270,660	$ 5,169,265	$ —	$ —	$ 5,270,660	$ 5,169,265
Special Indebtedness:						
Lease-purchase revenue bonds	215,045	225,045	—	—	215,045	225,045
Certificates of participation	872,600	919,585	—	—	872,600	919,585
Limited obligation bonds	580,705	600,000	—	—	580,705	600,000
GARVEE bonds	434,825	241,820	—	—	434,825	241,820
Revenue bonds	—	—	622,758	—	622,758	—
Notes payable	30,642	26,331	68,800	—	99,442	26,331
Total	$ 7,404,477	$ 7,182,046	$ 691,558	$ —	$ 8,096,035	$ 7,182,046
Total percent change between fiscal years 2010 and 2009	3.10 %		N/A		12.73 %	

During the 2009-10 fiscal year, the State issued $487.7 million in general obligation public improvement bonds and $242.52 million in grant anticipation revenue vehicle (GARVEE) bonds for its governmental activities. The proceeds of the public improvement bonds will be used to finance various capital projects for the State primary government and the University of North Carolina System, as specifically authorized by the North Carolina General Assembly. The general obligation bonds were issued pursuant to the State's two-thirds bond authorization provided by the North Carolina State Constitution (Article 5, Section 3). 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 State issued $622.758 million in revenue bonds and secured a $68.8 million federal transportation loan for the N.C. Turnpike Authority, a business-type activity. The revenue bond and federal loan proceeds will be used to finance construction of the Triangle Expressway, a 19-mile toll road in Durham and Wake counties

The State refinanced $390.96 million of its existing debt in fiscal year 2010 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 $26.7 million over the next eleven 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 $8.096 billion in 2010, in part due to large issuances for higher education capital projects. Prior to 2004, the State only issued general obligation debt. The following is a summary of recent debt authorizations.

Special Indebtedness

The 2010-11 Session of the General Assembly authorized the issuance of special indebtedness of $120 million for repairs and renovations to State facilities and related infrastructure and $55 million for university projects.

The 2009-10 Session of the General Assembly reduced special indebtedness authorizations for various projects by over $115 million to generate additional debt capacity and increased authorizations for guaranteed energy savings contracts by $400 million.

The 2008-09 Session of the General Assembly authorized the issuance of $734.03 million of special indebtedness as follows: $512.22 million for higher education projects, $109.09 million for correctional facilities, $50 million for acquiring State park lands and conservation areas, and $62.72 million for other State projects.

The 2007-08 Session of the General Assembly authorized the issuance of special indebtedness as follows: $481.14 million for higher education projects and $188.01 million for other purposes.

The 2006-07 Session of the General Assembly authorized the issuance of $672.1 million of special indebtedness as follows: $429.3 for psychiatric hospitals and a public health laboratory for the Department of Health and Human Services, $132.2 million for medical and mental health centers for the Department of Correction, and $110.6 million for other State and university projects.

Repair and Renovation Authorization

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

Higher Education Authorization

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

Clean Water and Natural Gas Authorization

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

Highway Bond Authorization

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

Debt Affordability Advisory Committee

During the 2003-04 Session, the General Assembly created a Debt Affordability Advisory Committee (Committee) to annually advise the Governor and the General Assembly on the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

In February 2010, the State Treasurer completed the most recent Debt Affordability Study for North Carolina (Study). The Study provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. A secondary purpose of the Study is to provide a methodology for measuring, monitoring and managing the State's debt levels, thereby protecting, and perhaps enhancing North Carolina's bond ratings.

The Committee adopted the following target and ceiling guidelines as the preferred measure used to determine the amount of net tax-supported debt that can be prudently authorized by the State:

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

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

The Study concluded that North Carolina has substantially exhausted its General Fund debt capacity until 2012. North Carolina's debt is considered manageable at current levels when compared to its peer group composed of other states rated "triple A" by all three rating agencies. Credit rating agencies consider a debt affordability study as a positive factor when evaluating issuers and assigning credit ratings.

Credit Ratings

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

State of North Carolina
General Obligation Bond Credit Ratings

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

These ratings are the highest attainable from all three rating agencies. The State's proactive responses and history of taking early action to mitigate the impact of revenue declines were recognized by the rating agencies. North Carolina remains one of only seven states to enjoy top-tier rankings from all three of the credit 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

In June 2010, the General Assembly enacted legislation that amended the original 2010-11 fiscal year budget. The revised fiscal year 2010-11 budget made adjustments to the original budget (enacted in 2009) that closed a projected cumulative budget gap of $1.3 billion from the original budget. This expected gap arose on account of reduced forecasted revenues and unanticipated costs.

In the revised budget for fiscal year 2010-11, appropriations were reduced from $19.6 billion to $18.95 billion. The net change in appropriations included 1) replacement of $563 million in State Medicaid funds with additional federal recovery funds, 2) budget reductions totaling $906 million, and 3) increased funding of $866 million to address unanticipated growth in Medicaid costs, a dramatic increase in higher education enrollment, and economic development initiatives. The unanticipated growth in Medicaid resulted from increased enrollment due to higher unemployment and additional consumption of Medicaid services from program beneficiaries. The unanticipated enrollment increases in higher education were primarily for the community college system. Community college enrollment increased by 34 thousand students, or 15%, because of greater demand for worker training programs during the recession.

Temporary tax increases included by the General Assembly in the 2009-2011 biennium budget were as follows:

- A temporary increase in the general state rate of sales and use tax from 4.5% to 5.5%, effective September 1, 2009. The increase is scheduled to expire on July 1, 2011.

- An individual income tax surcharge of 2% or 3% is imposed on taxpayers who meet certain income requirements. The surcharge expires for taxable years on or after January 1, 2011.

- A corporate income tax surcharge of 3% is imposed on corporations subject to income tax. The surcharge expires for taxable years on or after January 1, 2011.

CONDITIONS EXPECTED TO IMPACT FUTURE OPERATIONS

State Health Plan

Impact of Federal Health Care Reform

The State Health Plan (Plan) is in the process of evaluating the impacts of the Patient Protection and Affordable Care Act, and the Health Care Education and Affordability Act (Federal Health Care Reform). Although various provisions of Federal Heath Care Reform become effective over the next several years, key components with near-term impacts are as follows:

The Early Retiree Reimbursement Program (ERRP) is designed to encourage employers to maintain their retiree health plans at least until 2014, when the Health Insurance Exchanges become available. Under ERRP, plans can receive reimbursement for 80% of expenses for claims between $15 thousand and $90 thousand for non-Medicare retirees, aged 55 to 64, who have incurred at least $15 thousand in paid medical and pharmacy claims in a benefit year. A total of $5 billion in federal funding has been allocated for this program. The Plan estimates it will receive up to $90 million over the next five fiscal years if the funding does not run out first.

The Plan is also preparing to implement several provisions of Health Care Reform effective July 1, 2011, including expanding eligibility for coverage to age 26 regardless of student, dependent or marital status, and eliminating pre-existing condition exclusions for members up to age 19. The addition of new dependents up to age 26 is expected to cost about $16 million in fiscal year 2012. The Plan does not expect a significant impact as a result of the elimination of pre-existing medical conditions exclusions for dependents.

Health Care Reform allows plans that existed prior to its passage in March 2010 to be exempt from certain requirements of the law, including new claims and appeals procedures and an expanded array of preventive benefits with no member-cost-sharing. Maintaining the exemption or "grandfathered status" limits the amount and type of changes to benefits and contribution rates that can be made. The Plan is currently analyzing the impacts of remaining a grandfathered plan or adopting the new requirements.

Recent Legislation

The 2009-10 session of the General Assembly enacted legislation that established a new Comprehensive Wellness Initiative (CWI). The CWI was developed to encourage Plan members to make healthier lifesytle choices. It will provide support to Plan members by assisting them to quit using tobacco and to maintain a healthy weight. The CWI includes all covered dependents (the initiative does not apply to Medicare-primary members). The tobacco cessation component began on July 1, 2010. The weight management program begins on July 1, 2011. The Plan asks members to self-report tobacco use and height/weight for the calculation of Body Mass Index (BMI). Those members who do not use tobacco, or have a BMI less than 40, would be able to choose the PPO Standard 80/20 plan or the PPO Basic 70/30 plan. Tobacco users and members with a BMI 40 or higher would automatically be placed on the PPO Basic 70/30 plan. Beginning on July 1, 2012, members must have a BMI of less than 35 to enroll in the 80/20 Standard Plan.

During 2009-10 legislative session, the General Assembly also gave the Plan the authority to conduct a Dependent Eligibility Verification (DEV). The purpose of the DEV is to ensure all enrolled dependents are eligible as legislated, help maintain costs and protect benefits for eligible employees, retirees and their families. The audit began in August 2010 and will conclude in December 2010.

Three bills impacting the State Health Plan were enacted during the 2010-11 legislative short session: (1) a bill to cover hearing aids for individuals up to age 22, (2) a bill to expand coverage to dependents up to age 26 in cases where the dependent was covered through May 1, 2010, and (3) a bill to cover children in cases of court-ordered guardianship.

State Contributions to the Pension Fund

The State pension fund is diversified and invested with a conservative strategy. However, the economic climate and volatility of the stock market has impacted the State's finances across all lines of business, including the pension assets. The pension fund experienced losses of approximately 20% in calendar year 2008 which were partially offset by a 15% return in 2009. However, the pension fund actuarial assumed rate of return is 7.25% per year. As a result, the funded status of the plan has declined to 96%

The economic crisis has long term effects that will require increased contributions from the State over the next several years in order to maintain the strength of the fund. Funding the Retirement Systems is a shared responsibility among employees, employers, and investment earnings. For the past several years, investment earnings of the Teachers' and State Employees' Retirement System (TSERS) have accounted for over 60% of funding. The investment earnings were high enough in recent years to allow the General Assembly to significantly reduce its annual contributions to the TSERS below the normal rate of 6.3% of payroll. This is the State's match to the employee contribution of 6%, which is authomatically deducted from the monthly paycheck. Due to the loss of assets, the General Assembly will need to increase its contribution to the TSERS back to the normal contribution amount, roughly $961 million in fiscal year 2011-2012.

Escheats Fund

North Carolina's escheat policies date back to 1789 when the North Carolina State Constitution called for transferring unclaimed property to the University of North Carolina System. Interest earned on the Escheats Fund's investments underwrites college scholarships. Over time, the number and size of programs dependent on the Fund grew and now the State is using the Fund's principal to meet obligations. At the current rate of withdrawal, the Fund will have a negative balance in 2014.

Federal Recovery Funds

The State expects to receive additional federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). A total of $1.04 billion of ARRA funds is appropriated to supplant General Fund spending for fiscal year 2010-11. These funds will be used primarily for budget stabilization and increased federal participation in Medicaid.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2010 *Exhibit A-1*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 3,563,061	$ 401,223	$ 3,964,284	$ 2,287,502
Investments (Note 3)	256,929	103,434	360,363	1,705,902
Securities lending collateral (Note 3)	1,057,807	140,453	1,198,260	—
Receivables, net (Note 4)	2,811,765	742,415	3,554,180	1,087,496
Due from component units (Note 19)	21,683	—	21,683	12,742
Due from primary government (Note 19)	—	—	—	81,918
Internal balances	31,566	(31,566)	—	—
Inventories	199,609	849	200,458	95,328
Prepaid items	1,131	2,781	3,912	44,639
Advances to component units	21,742	—	21,742	—
Notes receivable, net (Note 4)	324,767	782,434	1,107,201	6,196,806
Investment in joint venture	—	—	—	9,692
Deferred charges	—	26,670	26,670	52,658
Securities held in trust	47,090	—	47,090	—
Pension assets (Note 12)	4,521	—	4,521	—
Restricted/designated cash and cash equivalents (Note 3)	223,858	267,015	490,873	2,088,159
Restricted investments (Note 3)	814,197	254,288	1,068,485	4,225,493
Restricted due from primary government (Note 19)	—	—	—	54,174
Restricted due from component units (Note 19)	—	—	—	2,694
Deferred outflow of resources	49,903	—	49,903	57,792
Capital assets-nondepreciable (Note 5)	15,950,429	310,130	16,260,559	2,013,201
Capital assets-depreciable, net (Note 5)	21,501,595	25,992	21,527,587	10,545,105
Total Assets	46,881,653	3,026,118	49,907,771	30,561,301
Liabilities				
Accounts payable and accrued liabilities	1,508,486	264,190	1,772,676	816,615
Medical claims payable	971,053	—	971,053	253,329
Unemployment benefits payable	—	105,833	105,833	—
Tax refunds payable	1,409,942	—	1,409,942	—
Obligations under securities lending	1,089,277	145,136	1,234,413	—
Interest payable	86,265	17,824	104,089	71,471
Short-term debt (Note 6)	—	—	—	883,469
Due to component units (Note 19)	136,092	—	136,092	15,436
Due to primary government (Note 19)	—	—	—	21,683
Unearned revenue	386,854	26,258	413,112	197,990
Advance from primary government	—	—	—	21,742
Deposits payable	316	40	356	12,555
Funds held for others	107,580	—	107,580	1,371,076
Hedging derivatives liability (Note 7)	49,903	—	49,903	57,792
Long-term liabilities (Note 8):				
Due within one year	585,929	802,544	1,388,473	1,188,002
Due in more than one year	8,345,758	2,068,696	10,414,454	8,322,142
Total Liabilities	14,677,455	3,430,521	18,107,976	13,233,302
Net Assets				
Invested in capital assets, net of related debt	35,452,614	158,556	35,611,170	8,936,814
Restricted for:				
Nonexpendable:				
Environment and natural resources	80,527	—	80,527	—
Higher education	566	—	566	1,720,546
Expendable:				
Primary and secondary education	9,066	—	9,066	—
Higher education	416,902	—	416,902	2,544,865
Health and human services	13,693	—	13,693	1,782
Economic development	16,966	—	16,966	778,505
Environment and natural resources	33,464	—	33,464	—
Public safety, corrections, and regulation	20,807	—	20,807	—
Transportation	7,190	—	7,190	—
EPA revolving loan	—	1,076,458	1,076,458	—
Other purposes	105,531	2,231	107,762	—
Unrestricted	(3,953,128)	(1,641,648)	(5,594,776)	3,345,487
Total Net Assets	$ 32,204,198	$ (404,403)	$ 31,799,795	$ 17,327,999

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, 2010
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government	$ 1,109,142	$ 356,602	$ 118,058	$ 19,036	$ (615,446)
Primary and secondary education	9,830,182	15,272	1,865,950	—	(7,948,960)
Higher education	4,232,267	473	167,713	—	(4,064,081)
Health and human services	16,809,253	295,588	12,720,701	—	(3,792,964)
Economic development	716,205	30,321	429,329	40	(256,515)
Environment and natural resources	564,771	143,331	105,596	18,086	(297,758)
Public safety, corrections, and regulation	2,693,212	511,912	168,681	20,241	(1,992,378)
Transportation	1,998,432	705,025	243,093	653,384	(396,930)
Agriculture	119,494	17,219	18,893	646	(82,736)
Interest on long-term debt	281,499	—	—	—	(281,499)
Total Governmental Activities	38,354,457	2,075,743	15,838,014	711,433	(19,729,267)
Business-type Activities:					
Unemployment Compensation	5,568,561	1,045,288	3,138,838	—	(1,384,435)
N.C. State Lottery	994,168	1,424,458	2,915	—	433,205
EPA Revolving Loan	30,940	19,874	86,622	—	75,556
N.C. Turnpike Authority	4,990	—	11,419	7,715	14,144
Regulatory commissions	35,843	37,534	890	—	2,581
Insurance programs	13,284	16,320	9,999	—	13,035
North Carolina State Fair	12,794	12,639	278	—	123
Other business-type activities	9,374	8,678	148	56	(492)
Total Business-type Activities	6,669,954	2,564,791	3,251,109	7,771	(846,283)
Total Primary Government	$ 45,024,411	$ 4,640,534	$ 19,089,123	$ 719,204	$ (20,575,550)
Component Units:					
The Golden LEAF, Inc.	$ 67,795	$ 5	$ 66,763	$ —	$ (1,027)
University of North Carolina System	8,538,407	5,124,400	1,175,741	356,072	(1,882,194)
Community Colleges	2,023,795	316,177	803,447	185,331	(718,840)
N.C. Housing Finance Agency	358,692	328,211	36,025	—	5,544
State Education Assistance Authority	412,604	114,460	282,160	—	(15,984)
State Health Plan	2,546,554	2,470,377	62,303	—	(13,874)
Other component units	288,777	66,653	163,680	83,198	24,754
Total Component Units	$ 14,236,624	$ 8,420,283	$ 2,590,119	$ 624,601	$ (2,601,621)

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2010 — *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (expense) revenue	$ (19,729,267)	$ (846,283)	$ (20,575,550)	$ (2,601,621)
General Revenues:				
Taxes:				
Individual income tax	9,345,441	—	9,345,441	—
Corporate income tax	1,252,800	—	1,252,800	—
Sales and use tax	5,916,119	—	5,916,119	—
Gasoline tax	1,557,430	—	1,557,430	—
Franchise tax	904,651	—	904,651	—
Highway use tax	439,506	—	439,506	—
Insurance tax	506,990	—	506,990	—
Beverage tax	295,383	—	295,383	—
Inheritance tax	71,731	—	71,731	—
Tobacco products tax	278,406	—	278,406	—
Other taxes	321,945	—	321,945	—
Tobacco settlement	145,539	—	145,539	—
Unrestricted investment earnings	28,645	—	28,645	—
State aid	—	—	—	3,567,722
Miscellaneous	44,354	—	44,354	2,152
Contributions to permanent funds	3,101	—	3,101	—
Contributions to endowments	—	—	—	68,280
Transfers	434,067	(434,067)	—	—
Total general revenues, contributions, and transfers	21,546,108	(434,067)	21,112,041	3,638,154
Change in net assets	1,816,841	(1,280,350)	536,491	1,036,533
Net assets — July 1, as restated (Note 24)	30,387,357	875,947	31,263,304	16,291,466
Net assets — June 30	$ 32,204,198	$ (404,403)	$ 31,799,795	$ 17,327,999

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2010 — *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)	$ 1,138,523	$ 887,433	$ —	$ 1,420,276	$ 3,446,232
Investments (Note 3)	2,602	—	—	218,430	221,032
Securities lending collateral (Note 3)	595,092	154,982	30,223	267,544	1,047,841
Receivables, net: (Note 4)					
Taxes receivable	1,369,427	108,545	36,946	2,243	1,517,161
Accounts receivable	265,779	8,006	83	22,466	296,334
Intergovernmental receivable	939,383	22,313	2,814	9,924	974,434
Interest receivable	487	1,161	144	4,662	6,454
Other receivables	—	3,265	—	—	3,265
Due from other funds (Note 10)	1,330	13,653	—	44,931	59,914
Due from component units (Note 19)	1,358	—	—	19,430	20,788
Inventories	65,391	84,963	—	49,132	199,486
Advances to other funds (Note 10)	—	—	18,279	—	18,279
Advances to component units	—	—	—	21,742	21,742
Notes receivable, net (Note 4)	21,830	1,035	81	301,821	324,767
Securities held in trust	424	2,645	—	44,021	47,090
Restricted/designated cash and cash equivalents (Note 3)	11,131	—	—	212,727	223,858
Restricted investments (Note 3)	—	167,026	—	647,171	814,197
Total Assets	$ 4,412,757	$ 1,455,027	$ 88,570	$ 3,286,520	$ 9,242,874
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 111,704	$ 258,817	$ 16,513	$ 65,634	$ 452,668
Accrued payroll	3,300	37,103	—	402	40,805
Intergovernmental payable	666,953	108,668	45,179	17,032	837,832
Claims payable	—	—	—	36,253	36,253
Medical claims payable	971,053	—	—	—	971,053
Tax refunds payable	1,402,587	5,516	1,839	—	1,409,942
Obligations under securities lending	613,042	159,687	31,425	274,853	1,079,007
Due to fiduciary funds (Note 10)	64,235	—	—	47	64,282
Due to other funds (Note 10)	25,069	6,365	13,653	24,883	69,970
Due to component units (Note 19)	55,018	—	—	81,074	136,092
Deferred revenue	567,116	13,621	98	36,872	617,707
Deposits payable	—	—	—	316	316
Funds held for others	46,848	16,651	—	44,081	107,580
Total Liabilities	4,526,925	606,428	108,707	581,447	5,823,507
Fund Balances:					
Reserved (Note 11)	224,358	283,707	18,360	892,351	1,418,776
Unreserved/Undesignated, reported in:					
General Fund	(338,526)	—	—	—	(338,526)
Special Revenue Funds	—	564,892	(38,497)	1,795,270	2,321,665
Capital Projects Funds	—	—	—	10,311	10,311
Permanent Funds	—	—	—	7,141	7,141
Total Fund Balance	(114,168)	848,599	(20,137)	2,705,073	3,419,367
Total Liabilities and Fund Balances	$ 4,412,757	$ 1,455,027	$ 88,570	$ 3,286,520	$ 9,242,874

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, 2010 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 3,419,367
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)	$ 37,878,732	
Less: Accumulated depreciation (excluding internal service funds)	(543,752)	
Net capital assets		37,334,980
- **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.		238,919
Investment derivatives are not financial resources and, therefore, are not reported in the funds (see Note 7).		11,929
- **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).		4,521
- **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	(5,270,660)	
Lease-purchase revenue bonds payable	(215,045)	
Certificates of participation payable	(872,600)	
Limited obligation bonds payable	(580,705)	
GARVEE bonds payable	(434,825)	
Unamortized debt premiums (to be amortized as interest expense)	90,493	
Less: Unamortized loss on refunding (to be amortized as interest expense)	(353,147)	
Notes payable	(30,642)	
Capital leases payable	(22,815)	
Net long-term debt		(7,689,946)
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 8 as applicable) consist of:		
Accrued interest payable	(86,265)	
Compensated absences (excluding internal service funds)	(414,382)	
Obligations for workers' compensation	(82,150)	
Deferred death benefit payable	(500)	
Pollution remediation payable	(6,549)	
Court judgment payable	(731,703)	
Negative investment derivatives	(64,294)	
Net pension obligation	(429)	
Total other liabilities		(1,386,272)
- **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).		270,700
Total net assets - governmental activities (see Exhibit A-1)		$ 32,204,198

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, 2010 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax	$ 9,343,303	$ —	$ —	$ 2,138	$ 9,345,441
Corporate income tax	1,245,515	—	—	—	1,245,515
Sales and use tax	5,871,166	—	—	28,793	5,899,959
Gasoline tax	—	1,146,104	382,740	27,758	1,556,602
Franchise tax	904,959	—	—	—	904,959
Highway use tax	—	—	439,506	—	439,506
Insurance tax	495,059	—	—	11,931	506,990
Beverage tax	295,349	—	—	—	295,349
Inheritance tax	71,901	—	—	—	71,901
Tobacco products tax	278,296	—	—	—	278,296
Other taxes	169,135	—	—	152,591	321,726
Federal funds	12,825,403	530,106	—	332,995	13,688,504
Local funds	153,234	30,043	3,038	31,847	218,162
Investment earnings	89,874	31,595	862	76,302	198,633
Interest earnings on loans	202	—	—	4,341	4,543
Sales and services	97,439	1,116	—	164,455	263,010
Rental and lease of property	8,877	6,620	2,166	4,459	22,122
Fees, licenses, and fines	674,508	605,853	85,971	187,591	1,553,923
Tobacco settlement	146,358	—	—	—	146,358
Contributions, gifts, and grants	20,391	7,489	—	57,985	85,865
Funds escheated	—	—	—	70,381	70,381
Federal recovery funds	1,961,425	293,344	—	137,082	2,391,851
Miscellaneous	140,765	6,903	599	16,418	164,685
Total revenues	34,793,159	2,659,173	914,882	1,307,067	39,674,281
Expenditures:					
Current:					
General government	909,279	—	—	53,123	962,402
Primary and secondary education	9,547,910	—	—	302,552	9,850,462
Higher education	3,728,849	—	—	496,957	4,225,806
Health and human services	16,712,294	—	—	103,805	16,816,099
Economic development	284,908	—	—	430,130	715,038
Environment and natural resources	262,015	—	—	292,613	554,628
Public safety, corrections, and regulation	2,221,098	—	—	438,585	2,659,683
Transportation	—	2,766,591	486,667	—	3,253,258
Agriculture	85,579	—	—	27,323	112,902
Capital outlay	—	—	—	341,058	341,058
Debt service:					
Principal retirement	391,926	49,515	55,634	1,488	498,563
Interest and fees	276,753	21,352	22,499	1,683	322,287
Debt issuance costs	623	421	133	133	1,310
Total expenditures	34,421,234	2,837,879	564,933	2,489,450	40,313,496
Excess revenues over (under) expenditures	371,925	(178,706)	349,949	(1,182,383)	(639,215)
Other Financing Sources (Uses):					
General obligation bonds issued	—	—	—	487,700	487,700
GARVEE bonds issued	—	242,520	—	—	242,520
Refunding bonds issued	371,920	—	—	—	371,920
Other debt issued	9,098	—	—	—	9,098
Premium on debt issued	64,301	20,616	—	55,959	140,876
Payment to refunded bond escrow agent	(435,870)	—	—	—	(435,870)
Sale of capital assets	2,450	2,849	1,597	5,098	11,994
Insurance recoveries	480	6,449	—	485	7,414
Transfers in (Note 10)	713,024	39,741	—	1,578,051	2,330,816
Transfers out (Note 10)	(433,923)	(309,511)	(177,678)	(955,390)	(1,876,502)
Total other financing sources (uses)	291,480	2,664	(176,081)	1,171,903	1,289,966
Net change in fund balances	663,405	(176,042)	173,868	(10,480)	650,751
Fund balances — July 1, as restated (Note 24)	(777,573)	1,024,641	(194,005)	2,715,553	2,768,616
Fund balances — June 30	$ (114,168)	$ 848,599	$ (20,137)	$ 2,705,073	$ 3,419,367

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, 2010 — *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ 650,751
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)	$ 2,223,330	
Less: Depreciation expense (excluding internal service funds)	(662,557)	
Net capital outlay adjustment		1,560,773
- **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.		(134,925)
- **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.		379
- **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	(739,318)	
Refunding bonds issued	(371,920)	
Premiums on debt issued	(140,876)	
Principal repayments:		
Bonds, notes, and similar debt	497,586	
Capital leases	977	
Payments to escrow agent for refundings	435,870	
Net debt adjustments		(317,681)
- **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.		13,721
Changes in fair value of investment derivatives are not current financial resources in governmental funds but are recognized in the Statement of Activities		(12,490)
- **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	(4,644)	
Compensated absences (excluding internal service funds)	4,068	
Workers' compensation	(3,683)	
Arbitrage rebate	911	
Deferred death benefit	30	
Cost settlement	15,000	
Net pension obligation	1,148	
Pollution remediation	139	
Amortization of deferred amounts	45,432	
Net expense accruals		58,401
- **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).		(2,088)
Change in net assets - governmental activities (see Exhibit A-2)		$ 1,816,841

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2010
(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)	$ 35,122	$ 291,033	$ 38,760	$ 938
Investments (Note 3)	—	—	2,150	—
Securities lending collateral (Note 3)	6,012	57,388	7,806	52,178
Receivables: (Note 4)				
Accounts receivable, net	56,589	—	6,648	—
Intergovernmental receivable	234,518	45	—	4,386
Interest receivable	39	5,266	110	—
Premiums receivable	—	—	—	—
Contributions receivable, net	362,268	—	—	—
Notes receivable, net (Note 4)	—	53,392	—	—
Due from other funds (Note 10)	5,007	—	—	—
Due from component units (Note 19)	—	—	—	—
Inventories	—	—	209	—
Prepaid items	—	—	30	—
Restricted/designated cash and cash equivalents (Note 3)	—	—	—	—
Total current assets	699,555	407,124	55,713	57,502
Noncurrent Assets:				
Investments (Note 3)	—	—	25,007	—
Receivables: (Note 4)				
Contributions receivable, net	66,917	—	—	—
Notes receivable, net (Note 4)	—	729,042	—	—
Deferred charges	—	—	168	26,502
Restricted/designated cash and cash equivalents (Note 3)	—	—	—	266,894
Restricted investments (Note 3)	—	—	—	252,151
Capital assets-nondepreciable (Note 5)	—	—	—	306,355
Capital assets-depreciable, net (Note 5)	—	116	1,238	35
Total noncurrent assets	66,917	729,158	26,413	851,937
Total Assets	766,472	1,136,282	82,126	909,439
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	6,310	35	27,453	25,932
Accrued payroll	—	—	379	—
Intergovernmental payable	181,678	—	10	—
Claims payable	—	—	—	—
Unemployment benefits payable	105,833	—	—	—
Obligations under securities lending	6,168	59,183	7,889	54,245
Interest payable	—	—	—	17,824
Due to other funds (Note 10)	45	17	18,127	3
Unearned revenue	17,980	—	18	—
Deposits payable	—	—	—	—
Annuity and life income payable (Note 8)	—	—	2,150	—
Federal unemployment account advances (Note 8)	800,000	—	—	—
Compensated absences (Note 8)	—	23	65	10
Total current liabilities	1,118,014	59,258	56,091	98,014
Noncurrent Liabilities:				
Accounts payable	—	—	—	4,416
Advances from other funds (Note 10)	—	—	—	18,279
Annuity and life income payable (Note 8)	—	—	25,007	—
Notes payable (Note 8)	—	—	—	68,800
Bonds payable, net (Note 8)	—	—	—	620,514
Federal unemployment account advances (Note 8)	1,349,524	—	—	—
Compensated absences (Note 8)	—	450	1,028	131
Total noncurrent liabilities	1,349,524	450	26,035	712,140
Total Liabilities	2,467,538	59,708	82,126	810,154
Net Assets				
Invested in capital assets, net of related debt	—	116	1,238	128,824
Restricted for:				
Capital outlay	—	—	—	—
Unrestricted	(1,701,066)	1,076,458	(1,238)	(29,539)
Total Net Assets	$ (1,701,066)	$ 1,076,574	$ —	$ 99,285

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
$ 35,370	$ 401,223	$ 116,829
73,581	75,731	23,968
17,069	140,453	9,966
3,219	66,456	11,694
—	238,949	—
27	5,442	32
2,383	2,383	2,391
—	362,268	—
—	53,392	—
—	5,007	24,243
—	—	895
640	849	123
2,751	2,781	1,131
121	121	—
135,161	1,355,055	191,272
2,696	27,703	—
—	66,917	—
—	729,042	—
—	26,670	—
—	266,894	—
2,137	254,288	—
3,775	310,130	3,539
24,603	25,992	113,505
33,211	1,707,636	117,044
168,372	3,062,691	308,316
1,715	61,445	9,831
89	468	744
—	181,688	—
16,173	16,173	1,777
—	105,833	—
17,651	145,136	10,270
—	17,824	—
102	18,294	900
8,260	26,258	8,066
40	40	—
—	2,150	—
—	800,000	—
296	394	537
44,326	1,375,703	32,125
—	4,416	—
—	18,279	—
—	25,007	—
—	68,800	—
—	620,514	—
—	1,349,524	—
3,242	4,851	5,491
3,242	2,091,391	5,491
47,568	3,467,094	37,616
28,378	158,556	117,044
2,231	2,231	—
90,195	(565,190)	153,656
$ 120,804	$ (404,403)	$ 270,700

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

For the Fiscal Year Ended June 30, 2010

(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	$ 976,839	$ —	$ —	$ —
Federal funds	68,449	—	—	—
Sales and services	—	2,352	1,419,599	—
Interest earnings on loans	—	17,522	—	—
Rental and lease earnings	—	—	—	—
Fees, licenses, and fines	—	—	4,763	—
Insurance premiums	—	—	—	—
Miscellaneous	—	—	96	—
Total operating revenues	1,045,288	19,874	1,424,458	—
Operating Expenses:				
Personal services	—	4,639	15,299	1,968
Supplies and materials	—	37	138	23
Services	—	1,248	139,921	892
Cost of goods sold	—	—	—	—
Depreciation/amortization	—	16	583	16
Lottery prizes	—	—	835,302	—
Claims	—	—	—	—
Unemployment benefits	5,568,533	—	—	—
Insurance and bonding	—	—	8	—
Other	—	707	2,638	658
Total operating expenses	5,568,533	6,647	993,889	3,557
Operating income (loss)	(4,523,245)	13,227	430,569	(3,557)
Nonoperating Revenues (Expenses):				
Noncapital grants	487,455	32,325	—	—
Noncapital gifts	—	—	—	—
Investment earnings	1,093	8,949	2,702	4,121
Interest and fees	—	—	—	(1,268)
Insurance recoveries	—	—	—	—
Grants, aid and subsidies	—	(24,111)	—	—
Gain (loss) on sale of equipment	—	—	(16)	—
Federal interest subsidy on debt	—	—	—	7,298
Federal recovery funds	2,650,290	45,348	—	—
Miscellaneous	(28)	(182)	(50)	(165)
Total nonoperating revenues (expenses)	3,138,810	62,329	2,636	9,986
Income (loss) before contributions and transfers	(1,384,435)	75,556	433,205	6,429
Capital contributions	—	—	—	7,715
Transfers in (Note 10)	—	6,419	—	34,391
Transfers out (Note 10)	(17,350)	(429)	(433,205)	—
Change in net assets	(1,401,785)	81,546	—	48,535
Net assets — July 1, as restated (Note 24)	(299,281)	995,028	—	50,750
Net assets — June 30	$ (1,701,066)	$ 1,076,574	$ —	$ 99,285

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

Exhibit B-4

	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
	$ —	$ 976,839	$ —
	—	68,449	18
	1,208	1,423,159	300,723
	—	17,522	—
	6,211	6,211	26
	50,249	55,012	25
	16,320	16,320	18,697
	1,183	1,279	296
	75,171	2,564,791	319,785
	35,916	57,822	69,864
	1,244	1,442	14,659
	15,827	157,888	119,832
	347	347	434
	1,413	2,028	25,907
	—	835,302	—
	7,096	7,096	492
	23	5,568,556	—
	5,136	5,144	21,726
	3,699	7,702	53,932
	70,701	6,643,327	306,846
	4,470	(4,078,536)	12,939
	446	520,226	661
	304	304	—
	10,500	27,365	4,180
	—	(1,268)	—
	—	—	122
	—	(24,111)	—
	—	(16)	(181)
	—	7,298	—
	18	2,695,656	—
	(547)	(972)	250
	10,721	3,224,482	5,032
	15,191	(854,054)	17,971
	56	7,771	188
	1,900	42,710	5,759
	(25,793)	(476,777)	(26,006)
	(8,646)	(1,280,350)	(2,088)
	129,450	875,947	272,788
	$ 120,804	$ (404,403)	$ 270,700

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2010

(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	$ 892,958	$ 2,352	$ 1,323,356	$ —
Receipts from federal agencies	39,204	—	—	—
Receipts from other funds	—	—	—	—
Payments to suppliers	—	(1,335)	(42,980)	(4,267)
Payments to employees	—	(4,621)	(15,433)	(1,991)
Payments for prizes, benefits, and claims	(5,300,231)	—	(839,959)	—
Payments to other funds	—	—	—	—
Other receipts	—	—	213	—
Other payments	—	(664)	(199)	—
Net cash flows provided (used) by operating activities	(4,368,069)	(4,268)	424,998	(6,258)
Cash Provided From (Used For) Noncapital Financing Activities:				
Grant receipts	407,321	32,350	—	—
Federal recovery funds	2,559,602	45,333	—	—
Subsidy to other governments	—	(24,111)	—	—
Advances from federal unemployment account	2,294,296	—	—	—
Payments to federal unemployment account	(873,545)	—	—	—
Advances from other funds	—	—	—	4,021
Transfers from other funds	—	6,419	—	—
Transfers to other funds	(17,350)	(429)	(420,465)	—
Gifts	—	—	—	—
Total cash provided from (used for) noncapital financing activities	4,370,324	59,562	(420,465)	4,021
Cash Provided From (Used For) Capital and Related Financing Activities:				
Acquisition and construction of capital assets	—	(52)	(528)	(204,225)
Proceeds from the sale of capital assets	—	—	—	—
Proceeds from capital debt	—	—	—	672,367
Transfers from other funds	—	—	—	34,391
Capital grants	—	—	—	7,420
Capital contributions	—	—	—	—
Interest paid on capital debt	—	—	—	(15,051)
Federal subsidy for interest on debt	—	—	—	3,341
Insurance recoveries	—	—	—	—
Debt issuance costs paid	—	—	—	(10,823)
Total cash provided from (used for) capital and related financing activities	—	(52)	(528)	487,420
Cash Provided From (Used For) Investment Activities:				
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	—	449,807
Purchase of non-State Treasurer investments	—	—	—	(675,428)
Purchase into State Treasurer investment pool	—	—	—	—
Loan issuances	—	(112,445)	—	—
Loan repayments — interest	—	16,163	—	—
Loan repayments — principal	—	48,459	—	—
Investment earnings	698	4,370	1,512	7,368
Total cash provided from (used for) investment activities	698	(43,453)	1,512	(218,253)
Net increase (decrease) in cash and cash equivalents	2,953	11,789	5,517	266,930
Cash and cash equivalents at July 1, as restated	32,169	279,244	33,243	902
Cash and cash equivalents at June 30	$ 35,122	$ 291,033	$ 38,760	$ 267,832

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

Exhibit B-5

		Governmental Activities —
Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 74,478	$ 2,293,144	$ 51,323
—	39,204	18
—	—	276,751
(22,659)	(71,241)	(187,039)
(35,855)	(57,900)	(69,439)
(6,627)	(6,146,817)	(708)
—	—	(22,760)
1,446	1,659	582
(698)	(1,561)	(1,101)
10,085	(3,943,512)	47,627
446	440,117	661
18	2,604,953	—
—	(24,111)	—
—	2,294,296	—
—	(873,545)	—
—	4,021	—
1,900	8,319	5,759
(25,793)	(464,037)	(26,006)
305	305	—
(23,124)	3,990,318	(19,586)
(249)	(205,054)	(17,195)
—	—	2,183
—	672,367	—
—	34,391	—
—	7,420	—
56	56	—
—	(15,051)	—
—	3,341	—
—	—	122
—	(10,823)	—
(193)	486,647	(14,890)
446	450,253	—
—	(675,428)	—
(1,725)	(1,725)	—
—	(112,445)	—
—	16,163	—
—	48,459	—
593	14,541	580
(686)	(260,182)	580
(13,918)	273,271	13,731
49,409	394,967	103,098
$ 35,491	$ 668,238	$ 116,829

Continued

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2010

(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)	$ (4,523,245)	$ 13,227	$ 430,569	$ (3,557)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation/amortization	—	16	583	16
Interest earnings on loans classified as investing activity	—	(17,522)	—	—
Restatements and adjustments	—	—	—	—
Nonoperating miscellaneous income (expense)	—	—	14	—
(Increases) decreases in assets:				
Receivables	(88,632)	—	(1,729)	—
Due from other funds	(2,007)	—	—	—
Due from fiduciary funds	—	—	—	—
Due from component units	—	—	—	—
Inventories	—	—	85	—
Prepaid items	—	—	(198)	—
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities	159,004	4	(4,112)	(2,697)
Due to other funds	(30)	(11)	—	3
Unemployment benefits payable	84,939	—	—	—
Pollution remediation payable	—	—	—	—
Compensated absences	—	18	(181)	(23)
Unearned revenue	1,902	—	(33)	—
Deposits payable	—	—	—	—
Total cash provided from (used for) operations	$ (4,368,069)	$ (4,268)	$ 424,998	$ (6,258)
Noncash Investing, Capital, and Financing Activities:				
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ —	$ —	$ —
Amortization of bond related costs	—	—	—	945
Donated or transferred assets	—	—	—	—
Change in construction in progress as a result of accrual of accounts payable	—	—	—	—
Capital asset write-off	—	—	(6)	—
Assets acquired through the assumption of a liability	6,012	57,388	7,806	52,178
Change in fair value of investments	(156)	(1,794)	(83)	(538)

Exhibit B-5

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
$ 4,470	$ (4,078,536)	$ 12,939
1,413	2,028	25,907
—	(17,522)	—
445	445	(44)
47	61	287
384	(89,977)	99
—	(2,007)	4,197
—	—	3
—	—	80
(112)	(27)	30
1,642	1,444	939
1,310	153,509	(618)
17	(21)	(656)
—	84,939	—
(250)	(250)	—
76	(110)	197
646	2,515	4,267
(3)	(3)	—
$ 10,085	$ (3,943,512)	$ 47,627
$ 3,714	$ 3,714	$ 1,319
—	945	—
—	—	188
—	—	93
(532)	(538)	—
17,160	140,544	11,313
4,242	1,671	1,193

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2010 *Exhibit B-6*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents (Note 3)	$ 683,451	$ 19,663	$ 118,961	$ 3,990,163
Investments (Note 3):				
U.S. government and agency securities	702,254	—	1,121	—
Mortgage pass throughs	204,335	—	—	—
Collateralized mortgage obligations	67,375	—	—	—
Government bonds	33,833	—	—	—
Asset-backed securities	20,539	—	—	—
Repurchase agreements	2,300	—	—	—
Corporate bonds	366,482	—	—	3,905
Corporate stocks	—	—	—	2
Certificates of deposit	5,261	—	61,308	325
Mutual funds	127,329	—	—	—
State Treasurer investment pool	65,982,056	675,964	—	24,009
Non-State Treasurer pooled investments	3,600,649	—	—	—
Securities lending collateral (Note 3)	4,623,283	111,724	142	684,638
Receivables:				
Taxes receivable	—	—	—	96,600
Accounts receivable	19,890	—	—	9,168
Interest receivable	11,135	2,830	1	—
Contributions receivable	114,940	—	—	—
Due from other funds (Note 10)	46,462	—	—	17,820
Due from component units	10,289	—	—	—
Notes receivable	207,704	—	—	—
Sureties	—	—	893,207	95,534
Total Assets	76,829,567	810,181	1,074,740	4,922,164
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	54,546	—	—	585
Intergovernmental payable	—	—	—	468,264
Benefits payable	5,465	—	—	—
Obligations under securities lending	4,753,056	115,197	147	705,999
Deposits payable	—	—	—	1,845
Funds held for others	—	—	—	3,745,471
Total Liabilities	4,813,067	115,197	147	4,922,164
Net Assets				
Held in trust for:				
Employees' pension and other benefits	72,016,500	—	—	—
Pool participants	—	694,984	—	—
Individuals, organizations, and other governments	—	—	1,074,593	—
Total Net Assets	$ 72,016,500	$ 694,984	$ 1,074,593	$ —

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, 2010 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions:			
Contributions:			
Employer	$ 1,729,259	$ —	$ —
Members	1,484,348	—	—
Trustee deposits	—	—	160,705
Other contributions	36,312	—	—
Total contributions	3,249,919	—	160,705
Investment income:			
Investment earnings (loss)	8,687,069	22,392	3,972
Less investment expenses	(316,507)	(620)	—
Net investment income (loss)	8,370,562	21,772	3,972
Pool share transactions:			
Reinvestment of dividends	—	21,772	—
Net share purchases/(redemptions)	—	90,456	—
Net pool share transactions	—	112,228	—
Other additions:			
Fees, licenses, and fines	4,343	—	—
Miscellaneous	3,287	—	12,800
Total other additions	7,630	—	12,800
Total additions	11,628,111	134,000	177,477
Deductions:			
Claims and benefits	4,415,805	—	—
Medical insurance premiums	577,647	—	—
Refund of contributions	116,688	—	—
Distributions paid and payable	—	21,772	—
Payments in accordance with trust arrangements	—	—	145,182
Administrative expenses	21,268	—	—
Other deductions	3	—	—
Total deductions	5,131,411	21,772	145,182
Change in net assets	6,496,700	112,228	32,295
Net assets — July 1, as restated (Note 24)	65,519,800	582,756	1,042,298
Net assets — June 30	$ 72,016,500	$ 694,984	$ 1,074,593

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 constituent high school; and the University of North Carolina Health Care System (UNCHCS). Each of the 16 universities and the high school, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. UNCHCS is governed by a separate board of directors. Funding for the UNC System is accomplished by State appropriations, tuition and fees, sales and services, federal grants, state grants, and private donations and grants.

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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 seven-member board of directors, all of whom are appointed by the Governor. 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 benefits to employees and retirees of the State, most of its component units, and local boards of education that are not part of the reporting entity. The Plan is governed by a nine-member board of trustees, all of whom are appointed by either the Governor or the General Assembly. Provisions and contribution rates are approved by the General Assembly, with the State making significant contributions as an employer and through its funding of local boards of education.

Discretely Presented Component Units - Other

North Carolina Global TransPark Authority

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

North Carolina State Ports Authority

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

North Carolina Railroad Company

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

North Carolina Agricultural Finance Authority

The North Carolina Agricultural Finance Authority (Authority) is a legally separate authority created to administer the financing of loans to farmers and agribusiness at reasonable terms and interest rates. The Authority is governed by a 10-member board, one of whom is a state official and nine of whom are appointed by either the Governor or the General Assembly. A financial benefit/burden relationship exists between the State and the Authority.

The North Carolina Partnership for Children, Inc.

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

Regional Economic Development Commissions:

North Carolina's Northeast Commission

North Carolina's Northeast Commission (Commission) is a legally separate organization created to facilitate economic development in the 16 counties in northeastern North Carolina. The Commission consists of 18 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 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 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 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 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 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 38-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

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

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

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

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

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

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

North Carolina Railroad Company
2809 Highwoods Boulevard, Suite 100
Raleigh, NC 27604-1000

North Carolina's Northeast Commission
119 West Water Street
Edenton, NC 27932

Southeastern NC Regional Economic Development Commission
P.O. Box 2556
Elizabethtown, NC 28337

Western NC Regional Economic Development Commission
134 Wright Brothers Way
Fletcher, NC 28732

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

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

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, 2010, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2009, 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, 2009.

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 and the Highway Fund. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise funds:

Unemployment Compensation Fund
This fund accounts for the State's unemployment insurance program, which is part of a national system established to provide temporary benefit payments to eligible unemployed workers. The unemployment benefits are financed primarily by State unemployment insurance taxes, distributions of federal unemployment insurance taxes, and federal funding for the unemployment benefits of civilian and military employees. During fiscal year 2010, the unemployment benefits were also financed by repayable advances from the Federal Unemployment Account and federal recovery funds. The unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund.

N.C. State Lottery Fund
This fund accounts for the activities of the N.C. Education Lottery Commission. The net profits of the fund are transferred periodically to the Education Lottery Fund, a nonmajor special revenue fund.

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

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

Additionally, the State reports the following fund types:

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

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

Investment Trust Fund
This fund accounts 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 Powerball, revenue is recognized at the time of sale. For instant games, revenue is recognized at the time a pack of tickets is settled. For Powerball, prize expense is recorded at fifty percent of sales. 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 on the value of packs settled. For instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets.

Nonexchange transactions, in which the State receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants, entitlements, and similar items; and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Income taxes, sales taxes, and other similar taxes on earnings or consumption are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when the underlying exchange transaction has occurred. Franchise taxes, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements, and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection. Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Generally, the State considers revenues reported in the governmental funds to be available if they are collected within 31 days after year-end. Exceptions are individual income tax revenues and federal and county funds accrued for the matching share of medicaid claims payable, which the State considers to be available if they are collected within 12 months after year-end. Furthermore, in the circumstance where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., refunds payable and applied refunds). Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds, and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the State.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, obligations for workers' compensation, pollution remediation, and arbitrage rebate liabilities, which are recognized as expenditures when payment is due. Pension contributions to cost-sharing pension plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

D. Cash and Cash Equivalents

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

E. Investments

This classification includes deposits held by the State Treasurer in certain investment portfolios (see Note 3) as well as investments held separately by the State and its component units. Investments are generally reported at fair value. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported. Additional investment valuation information is provided in Note 3. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. Securities Lending

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

G. Receivables and Payables

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

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

In the fund financial statements, advances between funds (and to component units) and notes receivable are offset by a reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories and Prepaid Items

The inventories of the State and component units are valued at cost using either the first-in, first-out, 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 (special revenue fund) accounts for its maintenance and construction inventories using the average cost method.

Inventories of governmental funds, proprietary funds, and component units are recorded as expenditures when consumed rather than when purchased. In the fund financial statements, inventories are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

In governmental funds, prepaid items 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 or designated 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.

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

Sureties include various assets, including securities from insurance companies and bail bondsmen doing business within North Carolina, that 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 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.

Under some programs, the State has the option of using either restricted or unrestricted resources to make certain payments. 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.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods (See Note 11, Fund Balance Reserves). Designations of fund balance represent tentative management plans that are subject to change; however since unreserved fund balance in the General Fund is negative, no designations are reported in the current year.

P. Revenues and Expenses

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

Q. Food and Nutrition Services

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Balance / Net Assets Deficit

Primary Government

At June 30, 2010, the following enterprise fund reported a net assets deficit: State Banking Commission, $974 thousand.

At June 30, 2010, the following internal service fund reported a net assets deficit: Mail Service Center, $54 thousand.

B. Material Violations of Legal or Contractual Provisions

Primary Government

The State Treasurer did not comply with the statutory requirement limiting the North Carolina Retirement Systems' holdings within the Alternative allocation to five percent of the pension fund's market value as per General Statute 147-69.2(9). As of June 30, 2010, the Retirement Systems' Alternative investment holdings were approximately 5.15% of the Pension Fund's market value.

The 2009 legislative session authorized two new allocations within the North Carolina Retirement Systems, the Credit allocation and Inflation Protection allocation. During the fiscal year 2010, following an internal and external review of the existing Alternative portfolio, certain assets were reclassified into these two new allocations. Also, while complying with existing contracts that require additional investments, the State Treasurer has taken steps to prudently redeem holdings within Alternative assets. These efforts have reduced the holdings that would have otherwise been included within the five percent Alternative allocation. The State Treasurer continues to monitor the retirement holdings to proactively respond to changing market conditions.

Component Units

Chatham Hospital, Inc (the Hospital) which is a part of the University of North Carolina System, 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 1.2. Management acknowledges that the Hospital was in violation of certain covenants and requirements of those agreements at June 30, 2010. 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 a consultant with Critical Access Hospital expertise to assist in preparation of the Medicare and Medicaid cost report. In addition, the Hospital is consulting with expert personnel within the UNC Health Care System to improve operations. Management believes these actions will produce results to bring the Hospital in compliance with the covenants. Accordingly, the debt is classified as long-term liabilities (Note 8) at June 30, 2010.

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) Fund, and trust funds of the University of North Carolina System, in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

External Investment Pool

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

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

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

Fixed Income Investment – This portfolio holds collateralized mortgage obligations, asset-backed and commercial mortgage-backed securities. The State's pension trust funds are the sole participants in the portfolio.

Equity Investment – This portfolio holds an equity-based trust. The State's pension trust funds are the sole participants in the portfolio.

Real Estate Investment – This portfolio holds investments in real estate-based trust funds and group annuity contracts. The State's pension trust funds are the sole participants in the portfolio.

Alternative Investment – This portfolio holds investments in limited partnerships and equities received in the form of distributions from its primary investments. 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. The State's pension trust funds are the sole participants in the portfolio.

OPEB Equity Investment – This portfolio holds an equity-based trust. Pursuant to General Statute 147-69.4, the State Treasurer manages the trust's assets and is responsible for making investment decisions. This fund is 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 fund for the purpose of depositing and investing all or part of the contribution from their other post-employment benefit plans. As of June 30, 2010, the fund had twelve participants.

NOTES TO THE FINANCIAL STATEMENTS

All of the above 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 above. 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, 2010

Assets:	
Cash and cash equivalents	$ 144,101
Other assets	352,427
Investments	83,085,783
Total assets	83,582,311
Liabilities:	
Other payables	214,861
Obligations under securities lending	6,537,301
Total liabilities	6,752,162
Net Assets:	
Internal:	
Primary government	72,755,998
Component units	3,431,952
External	642,199
Total net assets	$ 76,830,149

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Revenues:	
Investment income	$ 8,286,625
Expenses:	
Securities lending	21,225
Investment management	320,475
Total expenses	341,700
Net increase in net assets resulting from operations	7,944,925
Distributions to participants:	
Distributions paid and payable	(7,944,925)
Share transactions:	
Reinvestment of distributions	7,948,684
Net share redemptions	(1,427,521)
Total increase in net assets	6,521,163
Net assets:	
Beginning of year	70,308,986
End of year	$ 76,830,149

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

Investments in nonparticipating contracts, such as nonnegotiable certificates of deposit, are reported at cost. Other investments held in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value. All other investments are reported at fair value. Fair values are determined daily for the Long-term Investment, Equity Investment, and OPEB Equity Investment portfolios and quarterly for the Real Estate Investment, Alternative Investment, Credit Investment and Inflation Protection Investment portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate trusts, limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2010, $12 million of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were not exposed to custodial credit risk.

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 Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 10,411,670	$ 3,662,489	$ 564,199	$ 2,966,951	$ 3,218,031
U.S. agencies	8,291,866	183,327	5,902,068	1,446,962	759,509
Mortgage pass-throughs	6,366,648	—	—	2,597	6,364,051
Collateralized mortgage obligations	430,043	81,744	—	—	348,299
Asset-backed securities	553,891	278,417	49,772	101,376	124,326
Repurchase agreements	1,350,000	1,350,000	—	—	—
Commercial mortgage-backed securities	466,914	106,772	—	4,717	355,425
Money market fund	236,738	236,738	—	—	—
Domestic corporate bonds	9,659,740	53,237	868,399	4,916,040	3,822,064
Foreign government bonds	10,788	—	—	10,788	—
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	2,595,768	2,595,768	—	—	—
Repurchase agreements	912,889	912,889	—	—	—
Domestic corporate bonds	2,699,169	2,699,169	—	—	—
	43,986,124	$ 12,160,550	$ 7,384,438	$ 9,449,431	$ 14,991,705
Other securities:					
Equity based trust - domestic	20,696,570				
Equity based trust - international	10,538,762				
OPEB equity based trust- domestic	18,832				
OPEB equity based trust- international	6,161				
Alternative investments:					
Hedge funds	621,945				
Private equity investment partnerships	2,723,357				
Stock distributions	9,535				
Real estate trust funds	2,902,010				
Credit investments	832,105				
Inflation protection investments	708,782				
Total investment securities	$ 83,044,183				

In addition to the above amount, certificates of deposit in the amount of $41.6 million are reported as investments in the Condensed Statement of Net Assets presented previously.

NOTES TO THE FINANCIAL STATEMENTS

Also, 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	$ 8,956,336	0.875%-8.875%
U.S. agencies	8,094,319	0.45%-7.125%
Mortgage pass-throughs	5,909,827	4.5%-9.0%
Collateralized mortgage obligations	532,898	0.31%-7.27%
Commercial mortgage-backed securities	4,610,280	0.01%-8.35%
Asset-backed securities	614,424	0.37%-9.5%
Domestic corporate bonds	8,851,807	1.375%-10.75%
Foreign government bonds	10,000	5.125%-5.125%
Repurchase agreements	1,350,000	0.05%-0.10%
Money market fund	236,738	2.92%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	2,850,190	0.36%-0.80%
Repurchase agreements	912,889	0.01%-0.37%
Domestic corporate bonds	2,774,500	0%-0.99%
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 and foreign equity futures contracts (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, 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 Equity-based Trust - The State Treasurer has contracted with an external party (Trustee) to create the "North Carolina Local Government Other Post-Employment Benefits Fund Trust" (the Trust). The State Treasurer employs an investment manager to manage the assets, primarily in equity and equity-based securities 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 Trust, engages in securities lending transactions, and maintains all related accounting records. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities.

Interest Rate Risk. Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.6 years as of June 30, 2010. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

The assets of the Long-term Investment portfolio are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the retirement systems' liabilities. At year-end, pensions and other employee benefit plans owned 96% of the Long-term Investment portfolio.

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

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

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

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

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

Credit Risk. General Statute 147-69.1 specifies the cash investment options for the Short-term Investment portfolio. The statute limits credit risk by restricting the 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 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	Ba/BB and Below	Unrated
U.S. agencies	$ 8,178,099	$ —	$ 113,767	$ —	$ —	$ —
Collateralized mortgage obligations	37,691	43,483	26,309	63,192	259,368	—
Commercial mortgage-backed securities	114,728	46,522	138,060	159,150	8,454	—
Asset-backed securities	102,401	100,139	97,056	210,582	43,713	—
Repurchase agreements	1,350,000	—	—	—	—	—
Money market fund	—	—	—	—	—	236,738
Domestic corporate bonds	491,835	706,969	4,919,753	3,236,391	304,792	—
Foreign government bonds	—	—	10,788	—	—	—
Securities purchased with cash collateral under securities lending program:						
Asset-backed securities	1,797,812	242,626	49,804	47,395	458,131	—
Repurchase agreements	—	—	—	—	—	912,889
Domestic corporate bonds	—	1,105,799	1,574,845	—	18,525	—
Total	$ 12,072,566	$ 2,245,538	$ 6,930,382	$ 3,716,710	$ 1,092,983	$ 1,149,627

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 $6.2 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.

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	$ 2,230,489	$ 316,463	$ 87,642	$ 1,368	$ 2,635,962
Japanese Yen	1,529,743	—	26,849	915	1,557,507
Pound Sterling	1,349,148	—	32,280	834	1,382,262
Hong Kong Dollar	596,913	—	46,925	406	644,244
Swiss Franc	447,496	—	2,469	359	450,324
Australian Dollar	352,901	—	21,525	277	374,703
South Korean Won	185,297	—	—	204	185,501
Brazil Cruzeiro Real	152,988	—	1,537	210	154,735
Swedish Krona	122,865	—	1,343	124	124,332
New Taiwan Dollar	124,707	—	—	134	124,841
Indian Rupee	116,221	—	—	95	116,316
Canadian Dollar	114,925	—	4,031	455	119,411
Other Currencies	525,344	—	10,332	686	536,362
Total	$ 7,849,037	$ 316,463	$ 234,933	$ 6,067	$ 8,406,500

Although there is no formally adopted investment policy, the State Treasurer's investment policy permits up to 20% of the retirement systems' invested assets to be in international securities. At year-end, the retirement systems had approximately 12.8% invested in international securities.

Securities Lending

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its Investment Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program for the internally managed fixed income portfolios. During the year the custodian lent U.S. government and agency securities, GNMAs, 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 weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities lent. While cash can be invested in securities ranging from overnight to five years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 30 days. At year-end, the weighted average maturity of investments was approximately 24 days.

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

During the market crisis of late 2008, there was a default in a Lehman Brothers floating rate note in which securities lending collateral had been invested. Since that time, several other securities with potential losses were identified. The State Treasurer directed that all securities lending revenues would be deposited into a separate account. These funds are invested into a money market fund, and are included on the Statement of Net Assets. The purpose of the separate account is to provide a reserve account to offset expected losses. At year-end, the State Treasurer had an unrealized loss in the Securities Lending Collateral pool of $329.5 million, and had accrued $141.2 million in the separate account.

Interest Rate Risk and Credit Risk. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the securities custodian. Contractually, 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. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies, or specified bank or corporate obligations. As directed by the State Treasurer, repurchase counterparties are limited to specific counterparties with specific dollar limits per counterparty. 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.

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

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

Investment Type		Carrying Amount	Weighted Average Maturity (Days)
Debt securities:			
State and local government ...	$	24,705	7
Repurchase agreements		508,951	1
Total investments	$	533,656	

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 A-1.

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

University of North Carolina (UNC) Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The UNC Hospitals are the only depositor in the Trust. However, the Trust is a participant of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

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

Investment Type		Carrying Amount
Other securities:		
Equity based trust - domestic	$	196,469
Equity based trust - international		65,890
Total investment securities	$	262,359

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

Currency		Carrying Value by Investment Type Equity Based Trust-International
Euro	$	14,630
Japanese Yen		9,787
Pound Sterling		8,924
Canadian Dollar		4,866
Hong Kong Dollar		4,338
Swiss Franc		3,841
Australian Dollar		2,959
Brazil Cruzeiro Real ...		2,245
South Korean Won		2,180
New Taiwan Dollar		1,428
Swedish Krona		1,330
Indian Rupee		1,020
Singapore Dollar		1,017
Norwegian Krone		943
South African Rand		871
Russian Rouble		864
Mexican New Peso		748
Other Currencies		2,902
Total	$	64,893

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Public Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust, New Hanover Regional Medical Center Trust and Columbus Regional Healthcare Trust. These Trusts are part of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee

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maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

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

Investment Type	Carrying Amount
Debt securities:	
Money market fund	$ 1
Other securities:	
Equity based trust - domestic	38,766
Equity based trust - international ..	14,019
Total investment securities	$ 52,786

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

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 3,113
Japanese Yen	2,082
Pound Sterling	1,899
Canadian Dollar	1,035
Hong Kong Dollar	923
Swiss Franc	817
Australian Dollar	630
Brazil Cruzeiro Real	478
South Korean Won	464
New Taiwan Dollar	304
Swedish Krona	283
Indian Rupee	217
Singapore Dollar	216
Norwegian Krone	201
South African Rand	185
Russian Rouble	184
Mexican New Peso	159
Other Currencies	617
Total	$ 13,807

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Escheat Investment Account

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. The investments are valued at fair market value using market prices provided by third party professionals. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Real estate trust funds	$ 12,982
Private equity investment partnerships ..	34,642
Public equities - domestic	27,788
Public equities - international	6,060
Total investment securities	$ 81,472

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

Currency	Carrying Value by Investment Type Public Equities - International
Euro	$ 1,606
Pound Sterling	857
Japanese Yen	787
Hong Kong Dollar	426
Swiss Franc	353
Canadian Dollar	303
Singapore Dollar	264
Brazil Cruzeiro Real	149
South Korean Won	129
Australian Dollar	119
New Taiwan Dollar	114
South African Rand	93
Swedish Krona	71
Mexican New Peso	65
Russian Rouble	57
Other Currencies	667
Total	$ 6,060

B. Deposits Outside the State Treasurer

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

Primary Government

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

Uninsured and uncollateralized	$	14,441
Total	$	14,441

Component Units

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

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

Uninsured and uncollateralized	$	144,011
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name		17,533
Total	$	161,544

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

Uninsured and uncollateralized	$	2,600
Total	$	2,600

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

Uninsured and collateral held by pledging bank	$	123,782
Total	$	123,782

C. Investments Outside the State Treasurer

Investments in participating investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, and all investments of the Deferred Compensation Plan are reported at fair value. Investments in certificates of deposit, investment agreements, bank investment contracts, real estate, real estate investment trusts, and limited partnerships are reported at cost. Detailed disclosures about investments held outside the State Treasurer are presented below.

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 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 Plan does not have formal investment policies that address interest rate risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

At December 31, 2009, the Supplemental Retirement Income Plan of North Carolina 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 securities:					
U.S. Treasuries	$ 216,543	$ 92,997	$ 70,554	$ 25,418	$ 27,574
U.S. Treasuries STRIPS	1,228	—	1,228	—	—
U.S. agencies	389,971	19,030	79,807	22,535	268,599
Mortgage pass-throughs	199,708	44,739	411	9,475	145,083
Collateralized mortgage obligations	49,768	6,018	4,432	—	39,318
State and local government	6,559	—	3,991	1,835	733
Asset-backed securities	9,322	536	4,868	3,673	245
Negotiable certificates of deposit	4,409	4,409	—	—	—
Pooled bond funds	133,160	—	—	133,160	—
Mutual bond funds	7,902	—	7,902	—	—
Domestic corporate bonds	267,025	8,532	159,598	69,060	29,835
Foreign corporate bonds	63,690	6,829	37,697	12,320	6,844
Foreign government bonds	23,407	—	17,540	2,710	3,157
	1,372,692	$ 183,090	$ 388,028	$ 280,186	$ 521,388
Other securities:					
State Street Securities Lending Quality Trust	274,587				
Balanced mutual funds	237				
International mutual funds	16,609				
Other mutual funds	70,974				
Non-State Treasurer pooled investments	2,965,607				
Total investment securities	$ 4,700,706				

Interest Rate Risk. Collateralized mortgage obligation (CMOs) 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 make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true. Commercial mortgage-backed securities, which are included in CMOs, are asset-backed securities whose cash flows are backed by the principal and interest payments of commercial or multifamily property mortgage loans. The sensitivity to changes in interest is considered lower as these types of securities are usually collateralized by fixed-rate mortgages that often contain lockout provisions for prepayment or are subject to prepayment penalties.

Credit Risk. The Plan's investment policy requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's rating of BBB-. Any security downgraded below BBB- by Standard & Poor's will be liquidated within six months. At year-end, the Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below	Unrated
U.S. agencies	$ 370,356	$ —	$ —	$ —	$ —	$ —
Mortgage pass-throughs	167,373	—	—	—	—	—
Collateralized mortgage obligations	45,458	4,310	—	—	—	—
State and local government	245	757	4,519	1,038	—	—
Asset-backed securities	9,322	—	—	—	—	—
Negotiable certificates of deposit	—	—	2,800	—	—	1,609
Pooled bond funds	—	133,160	—	—	—	—
Mutual bond funds	—	7,902	—	—	—	—
Domestic corporate bonds	2,038	30,521	143,237	86,180	3,845	1,204
Foreign corporate bonds	—	14,029	22,380	26,424	857	—
Foreign government bonds	1,243	4,760	4,838	12,566	—	—
Total	$ 596,035	$ 195,439	$ 177,774	$ 126,208	$ 4,702	$ 2,813

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a formal policy to limit custodial credit risk. At December 31, 2009, the investments of the Supplemental Retirement Income Plan of North Carolina maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	$ 216,543
U.S. Treasury STRIPS	1,228
U.S. agencies	389,971
Mortgage pass-throughs	199,708
Collateralized mortgage obligations	49,768
State and local government	6,559
Asset-backed securities	9,322
Negotiable certificates of deposit	4,409
Domestic corporate bonds	267,025
Foreign corporate bonds	63,690
Foreign government bonds	23,407
Total	$ 1,231,630

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. The Plan places no limit on the amount that may be invested in any one issuer. More than 5% of the Plan's investments are in Federal National Mortgage Association. These investments totaled $301.714 million and comprise 6.8% of the Plan's investments. These investments are classified as mortgage pass-throughs and U.S. agencies.

Securities Lending

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

As of December 2009, State Street lent U.S. Treasuries, U.S. agencies, U.S. Treasury STRIPS, mortgage pass-throughs, domestic corporate bonds, foreign corporate bonds, and foreign governmental bonds. Cash collateral is invested in the State Street Securities Lending pooled fund, which at December 2009 had a weighted average maturity of 40 days.

The Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the system. The contract with State Street requires State Street to indemnify the Plan if borrowers fail to return securities.

Other Primary Government Investments

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

General Statute 143B-426.24(j) allows the Deferred Compensation Plan Board 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 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 Plan participants and their beneficiaries.

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

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 12,567	$ 10,684	$ 1,553	$ 330	$ —
U.S. Treasury STRIPS	946	324	556	66	—
U.S. agencies	179,068	9,999	108,330	6,847	53,892
Mortgage pass-throughs	4,938	1,417	271	37	3,213
Collateralized mortgage obligations	17,629	2,153	2,375	6,725	6,376
State and local government	25,431	24,731	692	8	—
Asset-backed securities	11,277	1,059	1,898	1,574	6,746
Repurchase agreements	707,860	707,860	—	—	—
Negotiable certificates of deposit	852	302	550	—	—
Commercial paper	45,892	45,892	—	—	—
Pooled bond funds	139,760	—	—	139,760	—
Annuity contracts	27,157	2,150	10,750	10,750	3,507
Money market mutual funds	53,280	53,280	—	—	—
Mutual bond funds	3,188	6	54	3,116	12
Domestic corporate bonds	88,193	1,784	83,121	3,256	32
Foreign corporate bonds	8,798	762	7,120	912	4
Foreign government bonds	3,194	—	3,033	161	—
	1,330,030	$ 862,403	$ 220,303	$ 173,542	$ 73,782
Other securities:					
Balanced mutual funds	1,370				
International mutual funds	4,223				
Other mutual funds	22,978				
Real estate investment trusts	12,982				
Limited partnerships	34,642				
Non-State Treasurer pooled investments	362,122				
Domestic stocks	74,773				
Foreign stocks	6,060				
Other	1,697				
Total investment securities	$ 1,850,877				

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

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

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below	Unrated
U.S. agencies	$ 173,118	$ —	$ —	$ 37	$ —	$ —
Mortgage pass-throughs	311	1,414	—	—	—	—
Collateralized mortgage obligations	17,368	7	—	—	—	254
State and local government	24,710	16	682	23	—	—
Asset-backed securities	8,802	—	—	726	1,749	—
Repurchase agreements	167,026	—	2,300	—	—	—
Negotiable certificates of deposit	—	—	852	—	—	—
Commercial paper	—	45,892	—	—	—	—
Annuity contracts	—	27,157	—	—	—	—
Money market mutual funds	50,972	—	—	60	—	2,248
Pooled bond funds	—	139,760	—	—	—	—
Mutual bond funds	12	3,041	19	33	60	23
Domestic corporate bonds	63,636	2,597	15,085	6,875	—	—
Foreign corporate bonds	752	3,650	2,651	1,745	—	—
Foreign government bonds	3	870	665	1,656	—	—
Total	$ 506,710	$ 224,404	$ 22,254	$ 11,155	$ 1,809	$ 2,525

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the primary government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer. At year-end, the other primary government investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	$ 12,184
U.S. agencies	82,433
Mortgage pass-throughs	4,938
Collateralized mortgage obligations	17,629
State and local government	705
Asset-backed securities	11,277
Repurchase agreements	2,300
Negotiable certificates of deposit	852
Domestic corporate bonds	27,189
Foreign corporate bonds	8,798
Foreign government bonds	3,194
Total	$ 171,499

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

Concentration of Credit Risk. The North Carolina Public Employee Deferred Compensation Plan (the Plan) places no limit on the amount that may be invested in any one issuer. More than 5% of the Plan's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments totaled $43.010 million and $39.556 million and comprise 6.1% and 5.6%, respectively, of the Plan's investments.

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

University of North Carolina System

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

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

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 118,591	$ 17,309	$ 87,778	$ 8,544	$ 4,960
U.S. agencies	161,724	31,305	62,832	6,008	61,579
Mortgage pass-throughs	15,162	—	3,286	2,348	9,528
Collateralized mortgage obligations	77,016	13,578	1,319	2,098	60,021
State and local government	174	60	—	—	114
Asset-backed securities	11,322	3,563	44	54	7,661
Annuity contracts	88	—	—	—	88
Money market mutual funds	160,830	160,830	—	—	—
Mutual bond funds	65,818	1,054	25,412	33,475	5,877
Domestic corporate bonds	35,705	8,595	19,595	4,695	2,820
Foreign corporate bonds	146	—	28	56	62
Foreign government bonds	34	—	—	—	34
	646,610	$ 236,294	$ 200,294	$ 57,278	$ 152,744
Other securities:					
Balanced mutual fund	475				
International mutual funds	73,633				
Other mutual funds	203,674				
Investments in real estate	35,649				
Real estate investment trusts	464				
Hedge funds	1,266,257				
Limited partnerships	1,113,333				
Pooled investments	283				
Domestic stocks	132,636				
Foreign stocks	8,902				
Other	55,506				
Total investment securities	$ 3,537,422				

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

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	Ba/BB and Below	Unrated
U.S. agencies	$ 2,220	$ —	$ —	$ —	$ —	$ 143,611
Mortgage pass-throughs	393	19	3	—	—	14,728
Collateralized mortgage obligations	7,251	3,177	7,612	2,333	34,960	21,683
State and local government	—	—	77	37	—	60
Asset-backed securities	39	2,716	39	—	8,528	—
Annuity contracts	—	—	—	—	—	88
Money market mutual funds	159,989	—	16	—	—	825
Mutual bond funds	10,323	44,029	6,735	2,099	769	1,863
Domestic corporate bonds	4,021	3,696	25,164	1,793	1,031	—
Foreign corporate bonds	45	39	—	62	—	—
Foreign government bonds	—	—	34	—	—	—
Total	$ 184,281	$ 53,676	$ 39,680	$ 6,324	$ 45,288	$ 182,858

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	$ 15,658	$ 820
U.S. agencies	15,930	—
Mortgage pass-throughs	14,728	—
Collateralized mortgage obligations	4,422	—
Asset-backed securities	44	—
Domestic corporate bonds	8,898	—
Domestic stocks	10,484	44
Foreign stocks	—	11
Total	$ 70,164	$ 875

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	Limited Partnerships
Euro	$ —	$ 6,613	$ 57,429
Pound Sterling	—	—	6,547
Australian Dollar	—	—	2,230
Canadian Dollar	175	—	1,554
Total	$ 175	$ 6,613	$ 67,760

The 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, 2010, for the Authority's investments (dollars in thousands):

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
Money market mutual funds	$ 123,142	$ 123,142	$ —	$ —	$ —
Annuity contracts	3,273	3,273	—	—	—
	126,415	$ 126,415	$ —	$ —	$ —
Other securities:					
Investment agreements	53,276				
Other mutual funds	431,591				
Domestic stocks	34,140				
Total investment securities	$ 645,422				

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, 2010, the Authority's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - S&P Unrated
Money market mutual funds	$ 123,142
Annuity contracts	3,273
Total	$ 126,415

Custodial Credit Risk. The Authority does not have a formal policy that addresses custodial credit risk. The Authority's investments were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty's Trust Dept. or Agent but not in State's Name
Domestic stocks	$ 34,140
Total	$ 34,140

The Golden LEAF, Inc.

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

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

Investment Type	Carrying Amount	Effective Duration (in years)
Debt securities:		
U.S. Treasuries	$ 29,246	4.48
Money market mutual funds	9,028	0.08
Mutual bond funds	53,765	3.48
	92,039	
Other securities:		
International mutual funds	101,599	
Other mutual funds	53,031	
Real estate investment trusts	24,518	
Hedge funds	155,791	
Limited partnerships	119,402	
Domestic stocks	91,842	
Total investment securities	$ 638,222	

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, 2010, 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	Aa/AA	A
Money market mutual funds	$ 9,028	$ —	$ —
Mutual bond funds	8,729	15,805	29,231
Total	$ 17,757	$ 15,805	$ 29,231

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The Foundation's investment policy does not limit the amount invested in foreign currency–denominated investments.

NOTE 4: RECEIVABLES

Receivables at year-end are reported net of allowances for doubtful accounts as follows (dollars in thousands):

Governmental Activities:

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds(1)	Total
Receivables, gross (excluding notes)	$ 3,295,596	$ 153,078	$ 39,987	$ 39,331	$ 14,129	$ 3,542,121
Allowance for doubtful accounts	(720,520)	(9,788)	—	(36)	(12)	(730,356)
Receivables, net	$ 2,575,076	$ 143,290	$ 39,987	$ 39,295	$ 14,117	$ 2,811,765
Notes receivable, gross	$ 21,830	$ 1,035	$ 81	$ 301,821	$ —	$ 324,767
Notes receivable, net	$ 21,830	$ 1,035	$ 81	$ 301,821	$ —	$ 324,767

(1) Includes balances due from fiduciary funds.

Within governmental activities, the significant receivables not expected to be collected within one year are $205.188 million of notes receivable in other governmental funds and, in the General Fund, $24.239 million of accounts, intergovernmental and notes receivable.

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)	$ 792,522	$ 5,311	$ 6,758	$ 4,386	$ 5,636	$ 814,613
Allowance for doubtful accounts	(72,191)	—	—	—	(7)	(72,198)
Receivables, net	$ 720,331	$ 5,311	$ 6,758	$ 4,386	$ 5,629	$ 742,415
Notes receivable, gross	$ —	$ 782,434	$ —	$ —	$ —	$ 782,434
Notes receivable, net	$ —	$ 782,434	$ —	$ —	$ —	$ 782,434

Within business-type activities, the significant receivables not expected to be collected within one year are $729.042 million of notes receivable in the EPA Revolving Loan Fund and $66.917 million of contributions receivable in the Unemployment Compensation Fund. Revenues of other enterprise funds are net of uncollectible amounts.

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NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2010 is presented below (dollars in thousands).

Governmental Activities:	**Balance July 1, 2009 (as restated)**	**Additions**	**Deductions**	**Balance June 30, 2010**
Capital Assets, nondepreciable:				
Land and permanent easements	$ 13,186,390	$ 539,550	$ (4,472)	$ 13,721,468
Art, literature, and other artifacts	67,184	18,055	—	85,239
Construction in progress	1,936,220	1,564,766	(1,365,586)	2,135,400
Computer software in development	—	8,322	—	8,322
Total capital assets-nondepreciable	15,189,794	2,130,693	(1,370,058)	15,950,429
Capital Assets, depreciable:				
Buildings	2,806,023	107,733	(113,746)	2,800,010
Machinery and equipment	1,589,909	71,726	(82,092)	1,579,543
General infrastructure	184,816	1,739	(3,092)	183,463
State highway system	24,816,978	1,293,505	(67,280)	26,043,203
Computer software	23,158	4,142	—	27,300
Total capital assets-depreciable	29,420,884	1,478,845	(266,210)	30,633,519
Less accumulated depreciation/amortization for:				
Buildings	(777,290)	(52,932)	2,904	(827,318)
Machinery and equipment	(928,813)	(109,055)	61,969	(975,899)
General infrastructure	(81,969)	(4,798)	1,179	(85,588)
State highway system	(6,784,131)	(520,864)	65,934	(7,239,061)
Computer software	(3,230)	(828)	—	(4,058)
Total accumulated depreciation/amortization	(8,575,433)	(688,477)	131,986	(9,131,924)
Total capital assets-depreciable, net	20,845,451	790,368	(134,224)	21,501,595
Governmental activities capital assets, net	$ 36,035,245	$ 2,921,061	$ (1,504,282)	$ 37,452,024

Business-type Activities:	**Balance July 1, 2009 (as restated)**	**Additions**	**Deductions**	**Balance June 30, 2010**
Capital Assets, nondepreciable:				
Land and permanent easements	$ 3,453	$ 45,983	$ —	$ 49,436
Construction in progress	43,060	218,166	(532)	260,694
Total capital assets-nondepreciable	46,513	264,149	(532)	310,130
Capital Assets, depreciable:				
Buildings	35,417	—	(1,419)	33,998
Machinery and equipment	7,468	723	(1,158)	7,033
General infrastructure	15,752	—	(98)	15,654
Total capital assets-depreciable	58,637	723	(2,675)	56,685
Less accumulated depreciation for:				
Buildings	(18,412)	(760)	1,418	(17,754)
Machinery and equipment	(3,483)	(757)	1,045	(3,195)
General infrastructure	(9,331)	(511)	98	(9,744)
Total accumulated depreciation	(31,226)	(2,028)	2,561	(30,693)
Total capital assets-depreciable, net	27,411	(1,305)	(114)	25,992
Business-type activities capital assets, net	$ 73,924	$ 262,844	$ (646)	$ 336,122

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

Governmental activities:	
General government	$ 37,120
Primary and secondary education	662
Higher education	51
Health and human services	11,468
Economic development	827
Environment and natural resources	12,060
Public safety, corrections, and regulation	50,596
Transportation	572,128
Agriculture	3,565
Total depreciation expense	$ 688,477

Business-type activities:	
N.C. State Fair	$ 629
USS North Carolina Battleship Commission	108
Agricultural Farmers Market	315
EPA Revolving Loan Fund	16
State Banking Commission	4
ABC Commission	114
Utilities Commission	6
N.C. State Lottery	583
N.C. Turnpike Authority	16
Other business-type activities	237
Total depreciation expense	$ 2,028

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, 2010, was as follows (dollars in thousands):

University of North Carolina System:	Balance July 1, 2009 (as restated)	Additions	Deductions	Balance June 30, 2010
Capital Assets, nondepreciable:				
Land and permanent easements	$ 259,702	$ 60,188	$ (2,219)	$ 317,671
Art, literature, and other artifacts	129,939	9,549	(4)	139,484
Construction in progress	1,202,051	554,539	(841,534)	915,056
Computer software in development	32,823	20,503	—	53,326
Other intangible assets	1,009	—	(9)	1,000
Total capital assets-nondepreciable	1,625,524	644,779	(843,766)	1,426,537
Capital Assets, depreciable:				
Buildings	8,108,208	728,478	(27,422)	8,809,264
Machinery and equipment	1,608,331	182,057	(68,455)	1,721,933
Art, literature, and other artifacts	2,524	—	(2,312)	212
General infrastructure	1,055,383	324,540	(3,795)	1,376,128
Computer software	38,664	9,344	(2,785)	45,223
Total capital assets-depreciable	10,813,110	1,244,419	(104,769)	11,952,760
Less accumulated depreciation/amortization for:				
Buildings	(2,155,090)	(213,725)	19,854	(2,348,961)
Machinery and equipment	(994,132)	(117,269)	57,028	(1,054,373)
Art, literature, and other artifacts	(127)	(18)	62	(83)
General infrastructure	(376,908)	(34,333)	3,184	(408,057)
Computer software	(21,935)	(2,510)	74	(24,371)
Total accumulated depreciation/amortization	(3,548,192)	(367,855)	80,202	(3,835,845)
Total capital assets-depreciable, net	7,264,918	876,564	(24,567)	8,116,915
University of North Carolina System capital assets, net	$ 8,890,442	$ 1,521,343	$ (868,333)	$ 9,543,452

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2010, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of $32.038 million and net depreciable capital assets of $136.418 million.

Community Colleges:

	Balance July 1, 2009 (as restated)	Additions	Deductions	Balance June 30, 2010
Capital Assets, nondepreciable:				
Land and permanent easements	$ 145,940	$ 7,070	$ (810)	$ 152,200
Art, literature, and other artifacts	345	—	—	345
Construction in progress	160,978	116,099	(164,612)	112,465
Total capital assets-nondepreciable	307,263	123,169	(165,422)	265,010
Capital Assets, depreciable:				
Buildings	1,956,444	193,976	(4,406)	2,146,014
Machinery and equipment	252,602	33,329	(10,601)	275,330
Art, literature, and other artifacts	451	84	—	535
General infrastructure	123,410	16,307	(102)	139,615
Computer software	1,207	—	—	1,207
Total capital assets-depreciable	2,334,114	243,696	(15,109)	2,562,701
Less accumulated depreciation/amortization for:				
Buildings	(474,935)	(41,726)	481	(516,180)
Machinery and equipment	(104,841)	(16,745)	6,450	(115,136)
Art, literature, and other artifacts	(52)	(14)	—	(66)
General infrastructure	(30,981)	(3,739)	9	(34,711)
Computer software	(131)	(121)	—	(252)
Total accumulated depreciation/amortization	(610,940)	(62,345)	6,940	(666,345)
Total capital assets-depreciable, net	1,723,174	181,351	(8,169)	1,896,356
Community Colleges capital assets, net	$ 2,030,437	$ 304,520	$ (173,591)	$ 2,161,366

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2010, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of $3.580 million and net depreciable capital assets of $7.077 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, 2010 was $59.784 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, 2010, no commericial paper was outstanding.

The University of North Carolina at Wilmington engaged in interim financing in anticipation of the issuance of Recreation Center Bonds to finance the construction of an addition to the recreation center facility. As of June 30, 2010, no anticipation note was outstanding.

At North Carolina Central University, a bond anticipation note of $3.5 million was issued to finance pre-construction expenses for a dormitory, parking deck and renovation of a building. At June 30, 2010, no anticipation note was outstanding.

State Education Assistance Authority

The State Education Assistance Authority obtained a line of credit under the Loan Participation Purchase Program, through the United States Department of Education (the Department), to finance Federal Family Education Loan Program (FFELP) student loans for the 2009-2010 academic year. At June 30, 2010, the total obligation related to these participation interests was $823.685 million. The Authority consummated the sale of its interests in the participated student loans on September 13, 2010. In general, the Authority as the "Sponsor" transferred title to the loans to an unrelated entity called the "Custodian". Upon transfer, the loans were placed in a "participation facility" under the control of the Custodian. In exchange for that transfer, the Custodian sold, on behalf of the Sponsor, participation interests in the loans to the Department. The Department bought those participation interests by providing the Custodian with funds equal to the disbursed amount of the loans. The Custodian then provided those funds to the Sponsor, thus providing liquidity to the Authority for the FFELP loans for the 2009-2010 academic year. The program ended June 30, 2010.

The Golden LEAF (Long-term Economic Advancement Foundation), Inc.

On October 15, 2008, the Golden LEAF, Inc. (Foundation) borrowed $100 million through a short-term unsecured, non-revolving credit facility. The proceeds of the loan were placed in escrow to support the construction of new aerospace facilities at the Global TransPark in Lenoir County, North Carolina, in accordance with a grant awarded to the North Carolina Global TransPark Authority in May 2008. Proceeds from the Master Settlement Agreement (MSA) payment were used to make a partial principal repayment of $85 million on April 30, 2009. On April 30, 2009, the terms of the loan were modified. Under the modified terms, the outstanding principal amount of $15 million plus any accrued interest became due on May 1, 2010. There remains no outstanding payable at June 30, 2010.

Short-term debt activity for the University of North Carolina System, the State Education Assistance Authority, and the Golden LEAF, Inc. for the fiscal year ended June 30, 2010, are as follows (dollars in thousands):

	Balance July 1, 2009	Draws	Repayments	Balance June 30, 2010
University of North Carolina System				
Commercial Paper Program	$ 168,291	$ 43,000	$ (151,507)	$ 59,784
Anticipation Notes	6,700	—	(6,700)	—
State Education Assistance Authority				
Line of Credit	—	868,174	(44,489)	823,685
Golden LEAF, Inc.				
Line of Credit	15,000	—	(15,000)	—

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, 2010		
Type	Classification	Increase (Decrease)	Classification	Asset (Liability)	Notional
Primary Government					
Governmental Activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	$ (15,167)	Hedging derivatives liability	$ (49,903)	$ 499,870
Investment derivatives:					
Swaptions	Unrestricted investment earnings	(16,553)	Accounts payable	(64,294)	675,955
Basis swaps	Unrestricted investment earnings	4,063	Investments	11,929	675,955
Fiduciary Funds					
Investment derivatives:					
U.S. dollar equity futures	Investment earnings	$ (2,611)	State Treasurer Investment Pool	$ 45,891	$ 48,501
Foreign equity futures*	Investment earnings	(1,197)	State Treasurer Investment Pool	36,848	40,429
Component Units					
University of North Carolina System					
Cash flow hedges:					
Pay-fixed interest rate swaps:					
UNC at Chapel Hill	Deferred outflow of resources	$ (6,784)	Hedging derivatives liability	$ (20,543)	$ 119,900
N.C. State University	Deferred outflow of resources	(4,307)	Hedging derivatives liability	(10,396)	74,655
N.C. Central University	Deferred outflow of resources	(367)	Hedging derivatives liability	(1,052)	7,976
UNC Hospitals	Deferred outflow of resources	(5,597)	Hedging derivatives liability	(18,810)	136,620
Total		$ (17,055)		$ (50,801)	$ 339,151
N.C. Housing Finance Agency					
Cash flow hedges:					
Pay-fixed interest rate swaps:	Deferred outflow of resources	$ (2,031)	Hedging derivatives liability	$ (6,698)	$ 72,370

* The notional amount for foreign equity futures is reported in Canadian dollars.

For the primary government, the fair values of derivative instruments were measured using market prices except as follows. The fair values of interest rate swaps, swaptions, and basis swaps were estimated by the counterparties using a mid-market rate method which uses mid-market rate quotations to develop mathematically modeled approximations of the amounts that would be paid for similar replacement transactions at a given point in time.

For component units, the fair values of interest rate swaps were measured using market prices except as follows. The fair values of interest rate swaps at the University of North Carolina (UNC) at Chapel Hill were provided either by their financial advisor or by the counterparty. The method used by their financial advisor calculated the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for London Interbank Offered Rate (LIBOR) due on the date of each future net settlement on the swap. The method used by their counterparty calculated the present value of all expected future payments on the swap based on forward curves discounted at current market rates.

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

The fair values of the interest rate swaps at UNC Hospitals were estimated by the counterparty using the zero-coupon method. This method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

The fair values of the interest rate swaps at the N.C. Housing Finance Agency were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

B. Hedging Derivative Instruments

Primary Government

The following table displays the objectives and terms of the primary government's hedging derivative instruments outstanding at June 30, 2010 (dollars in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-fixed interest rate swap	Hedge changes in cash flows on G.O. 2002B-F Series refunding bonds	$ 230,635	12/12/02	6/1/19	Pay 3.283% ; receive 64% LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on G.O. 2002B-F Series refunding bonds	269,235	12/12/02	6/1/17	Pay 3.089% ; receive 64% LIBOR

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

Credit risk. At year-end, the State was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. To mitigate the potential for credit risk, if the counterparty's credit quality falls to a specified rating, the counterparty will be required to collateralize a portion (up to 100%) of the fair value. For Swap 1, if the counterparty's credit quality falls to A1 as determined by Moody's Investors Service (Moody's) or A+ as determined by either Standard & Poor's (S&P) or Fitch Ratings (Fitch) and their exposure exceeds $5 million, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 1, although the counterparty's S&P and Fitch ratings have fallen to A+, the valuation exposure threshold has not been met to require the counterparty to post any collateral. For Swap 2, if the credit quality falls to Aa1 (Moody's) or AA+ (S&P) and their exposure exceeds $10 million, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 2, although the counterparty's Moody's rating has fallen to Aa1, the valuation exposure threshold has not been met to require the counterparty to post collateral. The State is never required to post collateral.

Interest rate risk. The State is exposed to interest rate risk on its pay-fixed receive variable interest rate swaps. As the LIBOR swap index decreases, the State's net payment on the swap increases. The fair values of these swaps are highly sensitive to interest rate changes. An ascending yield curve will cause the value of the swaps to increase and likewise as rates fall, the values of the swaps will decline. Because rates have declined since the effective date of the swaps, both interest rate swaps have negative valuations at June 30, 2010.

Basis risk. The State's pay-fixed receive variable interest rate swaps expose the State to basis risk based on the potentially changeable relationship between the LIBOR index which the State receives (64% of LIBOR) and the interest rates that the State pays on its variable-rate debt which is repriced weekly. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.28% (Swap 1) and 3.09% (Swap 2) and the synthetic rates as of June 30, 2010 of 3.26% (Swap 1) and 3.07% (Swap 2). As of June 30, 2010, the average rate on the State's variable rate bonds was 0.2%, whereas 64% of LIBOR was 0.223%.

Termination risk. The State or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The State's pay-fixed receive variable interest rate swaps may be terminated by the State with 15 days notice and the counterparties can only terminate the swaps if the State's credit rating falls below Baa1 (Moody's), or BBB+ (S&P or Fitch) for Swap 1, and on Swap 2, below Baa3 (Moody's) or BBB- (S&P or Fitch), or an Event of Default occurs. An additional termination event occurs if the counterparty fails to maintain: for Swap 1, at least two ratings of at least Baa1 (Moody's) or BBB+ (S&P and Fitch); for Swap 2, at least one rating of at least Baa3 (Moody's) or BBB- (S&P). If at the time of termination a hedging derivative instrument is in a liability position, the State would be liable to the counterparty for a payment equal to the liability.

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, 2010 (dollars in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
UNC at Chapel Hill					
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2001B Series bonds	$ 19,900	10/3/00	11/1/25	Pay 5.24%; receive SIFMA Swap index
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2001B&C and 2002A Series bonds	100,000	12/1/07	12/1/36	Pay 3.314%; receive 67% LIBOR
N.C. State University					
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2003B Series bonds	24,655	6/20/03	10/1/27	Pay 3.54%; receive 75% LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on General Revenue 2008A Series bonds	50,000	9/1/08	10/1/26	Pay 3.862%; receive SIFMA Swap index
N.C. Central University					
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2003A Series bonds	7,976	4/1/04	10/1/24	Pay 3.52%; receive 70% LIBOR
UNC Hospitals					
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2003A&B Series bonds	94,600	2/13/03	2/1/29	Pay 3.48%; receive 67% LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 2009A Series bonds	42,020	2/12/09	2/1/24	Pay 3.601%; receive 67% LIBOR

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

UNC at Chapel Hill

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

Interest rate risk. The University is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2010. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the calculated values as of June 30, 2010. As the yield curve rises, the value of the swaps will increase and as rates fall, the fair value of the swaps will decrease.

Basis risk. The University is exposed to basis risk on the swaps when its bonds begin to trade at a yield above the referenced index rate. For the first swap, basis risk also exists since swap payments are received semi-annually while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a SIFMA swap to a percentage of LIBOR swap.

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

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

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

N.C. State University

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

Interest rate risk. The University is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2010. 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, 2010. Both of the swaps outstanding have termination dates greater than 15 years. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps decrease.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. The current outstanding swaps and the related bonds reset rates weekly and pay monthly. As of June 30, 2010, the SIFMA rate was 0.25%, whereas 75% of LIBOR was 0.26%.

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. The 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, 2010. The negative fair value is countered by a reduction in total interest payments required under the variable-rate bonds. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

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

Termination risk. The swap contract uses the ISDA Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the Foundation being required to make an unanticipated termination payment. As of June 30, 2010 no termination events had occurred and there was no known date when the derivative instrument may be terminated. The swap agreement is terminated if the Foundation or the counterparty fails to perform under the contract. There were no out-of-the ordinary termination events as of June 30, 2010.

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

UNC Hospitals

Credit risk. At year-end, UNC Hospitals (Hospitals) was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. However, should interest rates change and the fair value of the swap becomes positive, the

Hospitals would be exposed to credit risk in the amount of the derivative's fair value. UNC Hospitals has a policy of requiring collateral to support hedging derivative instruments subject to credit risk. This policy states that at such time that the counterparty's ratings fall below A3 for Moody's or below A- for S&P, the counterparty will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS, and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company, or financial institution organized under the laws of the United States (or any state or a political subdivision thereof). The Hospitals entered into a master agreement with the ISDA in January 2003. In this agreement, master netting arrangements were established between the contractual parties. All derivative instruments held by Hospitals are subject to this agreement.

Interest rate risk. The Hospitals is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2010. 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.

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

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

N.C. Housing Finance Agency

The following table displays the objectives and terms of the N.C. Housing Finance Agency's (Agency) hedging derivative instruments outstanding at June 30, 2010 (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	$ 16,015	5/8/03	7/1/32	Pay 3.508% ; receive 63% LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 16C Series bonds	16,355	9/16/03	7/1/32	Pay 3.81% ; receive 63% LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 17C Series bonds	20,000	12/11/03	7/1/32	Pay 3.725% ; receive 63% LIBOR plus 0.30%
Pay-fixed interest rate swap	Hedge changes in cash flows on Revenue 18C Series bonds	20,000	4/20/04	1/1/35	Pay 3.288% ; receive 63% LIBOR plus 0.30%

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

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

Basis risk. The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The swap contracts for the Agency utilize a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 15.67 basis points due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds.

Termination risk. Series 16C, 17C and 18C swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. Series 15C swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P. To date, no termination events have occurred.

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.

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

Derivative Instrument	Fair Value	Counterparty	Counterparty Credit Ratings S&P/Fitch	Counterparty Credit Ratings Moody's
Basis swap, G.O. Series 2003A, 2003B, and 2004A	$ 5,835	Counterparty 1	— / AA-	Aa2
Basis swap, G.O. Series 2003A, 2003B, and 2004A	3,774	Counterparty 2	A / A+	A2
Basis swap, G.O. Series 2003A, 2003B, and 2004A	2,320	Counterparty 3	AA- / AA-	Aa1
Total*	$ 11,929			
Less: Netting arrangement liability — Swaption	(33,075)	Counterparty 1		
Less: Netting arrangement liability — Swaption	(18,710)	Counterparty 2		
Less: Netting arrangement liability — Swaption	(12,509)	Counterparty 3		
Net exposure to credit risk	$ (52,365)			

* 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.

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).

Interest rate risk. The State is exposed to interest rate risk on its basis swaps. The fair values of the basis swaps are sensitive to interest rate changes. As the relationship between LIBOR and SIFMA change, the net basis swap cash flow will be affected. An increase in the LIBOR rate greater than in SIFMA rate will have a positive impact on net cash flow and likewise an increase in the SIFMA rate greater than in the LIBOR rate will have a negative impact on net cash flow. The State is also exposed to interest rate risk on its swaptions. The valuations of these instruments are highly sensitive to interest rate changes. The swaption valuations reflect a decline in interest rates from the prior fiscal year. A replacement transaction would generate a net present value savings approximately equal to these valuation amounts. The State pays SIFMA and receives 70% of LIBOR plus 69 basis points (28 basis points relate to swaptions) on a notional amount of $675.95 million. On June 30, 2010, SIFMA was 0.25% and 70% of LIBOR was 0.24%.

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

D. Synthetic Guaranteed Investment Contracts

Primary Government

In the Supplemental Retirement Income Plan of North Carolina, 401(k) plan, employees are able to participate in synthetic guaranteed investment contracts (SGICs). The SGICs with Prudential Insurance Company of America, which are fully benefit responsive, provided an average credit rating yield of 4.86% for the Prudential Core Conservative Bond Fund and 3.6% for the PIMCO Core Plus Bond Fund and the Payden and Rygel Short Duration Bond Fund. The fair value of the securities covered by the contracts as of December 31, 2009, is $919.41 million and the contract value is $892.76 million.

In the North Carolina Public Employee Deferred Compensation Plan, 457 Plan, employees are able to participate in SGICs. The SGICs with Prudential Insurance Company of America, which are fully benefit responsive, provided an average credit rating yield of 5.08% for the Prudential Core Conservative Bond Fund and 2.96% for the PIMCO Core Plus Bond Fund and the Payden and Rygel Short Duration Bond Fund. The fair value of the securities covered by the contracts as of December 31, 2009, is $205.97 million and the contract value is $199.96 million.

Both the Supplemental Retirement Income Plan and the Deferred Compensation Plan have entered into wrap contracts with Prudential Insurance Company of America (Prudential) and Great-West Life and Annuity Company (Great-West) to assure that the crediting rate on participant investments will not be less than zero. However, the wrap contracts with Prudential and Great-West were determined to have no fair value. The wrap contacts have strict limits as to the amount of funds that can be withdrawn, and these limits allow Prudential and Great-West to collapse the wrap contracts and provide market value to the participants.

NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2010, was as follows (dollars in thousands):

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	$5,169,265	$ 859,620	$ (758,225)	$ 5,270,660	$ 379,325
Special indebtedness:					
Lease-purchase revenue bonds	225,045	—	(10,000)	215,045	10,000
Certificates of participation	919,585	—	(46,985)	872,600	47,740
Limited obligation bonds	600,000	—	(19,295)	580,705	19,960
GARVEE bonds	241,820	242,520	(49,515)	434,825	61,745
Less deferred amounts:					
On refunding	(63,011)	(44,910)	17,428	(90,493)	—
Add issuance premium	275,131	140,876	(62,860)	353,147	—
Total bonds and similar debt payable	7,367,835	1,198,106	(929,452)	7,636,489	518,770
Notes payable	26,331	8,837	(4,526)	30,642	5,501
Capital leases payable	23,531	261	(977)	22,815	1,347
Arbitrage rebate payable	911	—	(911)	—	—
Compensated absences	424,281	258,832	(262,703)	420,410	34,785
Net pension obligation	474	10,035	(10,080)	429	—
Workers' compensation	78,467	17,711	(14,028)	82,150	24,715
Deferred death benefit payable	530	—	(30)	500	300
Pollution remediation payable	6,688	177	(316)	6,549	511
Court judgment payable	731,703	—	—	731,703	—
Cost settlement payable	15,000	—	(15,000)	—	—
Governmental activity long-term liabilities	$8,675,751	$1,493,959	$ (1,238,023)	$ 8,931,687	$ 585,929
Business-type activities:					
Bonds payable:					
Revenue bonds	$ —	$ 622,758	$ —	$ 622,758	$ —
Less deferred amounts:					
For issuance discounts	—	(2,351)	107	(2,244)	—
Total bonds payable	—	620,407	107	620,514	—
Notes payable	—	68,800	—	68,800	—
Annuity and life income payable	13,518	14,789	(1,150)	27,157	2,150
Federal unemployment account advances	728,773	2,294,296	(873,545)	2,149,524	800,000
Pollution remediation payable	250	—	(250)	—	—
Compensated absences	5,533	3,405	(3,693)	5,245	394
Business-type activity long-term liabilities	$ 748,074	$3,001,697	$ (878,531)	$ 2,871,240	$ 802,544

For governmental activities, the compensated absences, net pension obligation, workers' compensation, and cost settlement liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. Arbitrage rebate payable is generally liquidated by other governmental funds. 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, $6.028 million of internal service funds compensated absences are included in the above amounts.

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2010, was as follows (dollars in thousands):

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$2,395,149	$ 653,820	$ (174,084)	$ 2,874,885	$ 156,244
Certificates of participation	31,125	—	(2,075)	29,050	2,150
Less deferred amounts:					
For issuance discounts	(34,749)	(525)	9,510	(25,764)	—
On refunding	(25,389)	(7,154)	2,440	(30,103)	—
Add issuance premium	47,639	22,937	(4,086)	66,490	—
Total bonds payable	2,413,775	669,078	(168,295)	2,914,558	158,394
Notes payable	54,282	132,809	(27,013)	160,078	9,144
Capital leases payable	202,494	30,483	(8,566)	224,411	12,956
Arbitrage rebate payable	406	—	(9)	397	128
Annuity and life income payable	17,165	917	(1,130)	16,952	1,527
Compensated absences	331,615	232,168	(238,059)	325,724	34,203
Pollution remediation payable	83	30	(83)	30	30
Liability insurance trust fund payable	45,214	8,084	(5,006)	48,292	12,771
Total long-term liabilities	$3,065,034	$1,073,569	$ (448,161)	$ 3,690,442	$ 229,153

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2010, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $445.674 million, of which $12.884 million was due within one year and $432.79 million was due in more than one year.

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	$1,517,785	$ 135,000	$ (182,615)	$ 1,470,170	$ 171,615
Arbitrage rebate payable	1,498	—	(394)	1,104	694
Compensated absences	919	460	(382)	997	127
Total long-term liabilities	$1,520,202	$ 135,460	$ (183,391)	$ 1,472,271	$ 172,436

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$3,994,462	$ —	$ (1,880,812)	$ 2,113,650	$ 637,200
Notes payable	—	1,577,156	(16,631)	1,560,525	120,500
Arbitrage rebate payable	2,575	—	(1,887)	688	655
Compensated absences	359	6	(11)	354	11
Total long-term liabilities	$3,997,396	$1,577,162	$ (1,899,341)	$ 3,675,217	$ 758,366

B. Bonds, Special Indebtedness, and Notes Payable

Bonds, special indebtedness, and notes payable at June 30, 2010 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Balance
Primary Government:				
Governmental activities				
General obligation bonds	0.18% - 5.50%*	2030	$ 7,557,335	$ 5,270,660
Special indebtedness:				
Lease-purchase revenue bonds	3.00% - 5.25%	2024	272,045	215,045
Certificates of participation	3.00% - 5.25%	2028	1,064,840	872,600
Limited obligation bonds	2.00% - 5.25%	2029	600,000	580,705
GARVEE Bonds	2.00% - 5.21%	2021	530,085	434,825
Notes payable	1.95% - 4.00%	2018	42,576	30,642
Business-type activities				
Revenue bonds**	4.50% - 7.10%	2039	$ 622,758	$ 622,758
Notes payable	4.25%	2047	68,800	68,800
Component Units:				
University of North Carolina System				
Revenue bonds**	0.15% - 10.00%*	2039	$ 3,345,033	$ 2,874,885
Certificates of participation	3.13% - 5.00%	2036	38,745	29,050
Notes payable**	0.85% - 8.75%*	2030	246,854	160,078
North Carolina Housing Finance Agency				
Revenue bonds	3.10% - 6.40%*	2039	$ 3,724,241	$ 1,470,170
State Education Assistance Authority				
Revenue bonds	0.33% - 4.00%*	2037	$ 3,681,505	$ 2,113,650
Notes payable	0.36%*	2014	1,577,000	1,560,525

* For variable rate debt, interest rates in effect at June 30, 2010 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 $352.68 million for the primary government and $301.77 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, 2010 totaled $2.026 billion as follows: university projects $902 million, psychiatric hospital $253 million, correctional facilities $118 million, guaranteed energy savings contracts $438 million, parks and land $40 million, State and other projects $115 million, and repairs and renovations $160 million.

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 that will begin on May 1, 2013. 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, US Bank National Association.

The State's Remarketing Agents, Banc of America Securities (series 2002D), JP Morgan Securities (series 2002E), Goldman Sachs (series 2002F) and Wells Fargo & Company (series 2002G) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% per annum of the outstanding principal amount of the bonds assigned to each agent.

Under four separate standby bond purchase agreements ("agreements") between the State and Landesbank Hessen-Thuringen Girozentrale ("the Bank"), a Liquidity Facility has been established for each series for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. The State is required to pay the Bank a commitment fee quarterly in arrears, until the expiration date or the termination date of the agreements. For the 2009-10 fiscal year, the commitment fee was 0.1% per annum. Under an amended agreement, which was entered into on March 11, 2010, a new commitment fee of 0.35% was scheduled to begin on 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, 2010, 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%.

NOTES TO THE FINANCIAL STATEMENTS

State of North Carolina Variable Rate General Obligation Refunding Bonds, Series B, C, D, E, and F

On December 5, 2002, the State issued tax-exempt variable rate general obligation bonds, ($100 million, series B through E and $99.87 million, series F) in the total amount of $499.87 million that have final maturity dates of June 1, 2019. Each series of bonds is subject to mandatory sinking fund redemption that will begin on June 1, 2012. The bonds were issued to refund certain general obligation bonds of the State. 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, US Bank National Association.

The State's Remarketing Agents, Wachovia Bank N. A. (a division of Wells Fargo) (series 2002B), Citigroup (series 2002C), Wachovia Bank N.A. (series 2002D), RBC Capital Markets (series 2002E) and BB&T Capital Markets (series 2002F) 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 separate standby bond purchase agreements (agreements) between the State and Wachovia Bank N.A. (series 2002B), Bayerische Landesbank (series 2002C), Landesbank Baden-Wurttemberg (series 2002D), Bayerische Landesbank (series 2002E) and Branch Banking & Trust Company (series 2002F), (collectively, "the Banks"), liquidity facility agreements have 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. The State is required to pay the banks a commitment fee quarterly in arrears until the expiration date or the termination date of the agreements. On September 24, 2009 the State entered into amendments to the original liquidity facility agreements and these amended rates are as follows:

Series	Liquidity Facility Provider	Amended Rate	Agreement Expiration	Optional Termination	Base Rate Defined: Higher Of	Bank Bond Rate
2002B	Wachovia Bank, N.A. (a division of Wells Fargo)	0.70%	10/1/2011	None	Prime + 2% or Fed Funds +3%	1-30 days: Base Rate 31-180 days: Base +1% >180 days: Base + 2%
2002C	Bayerische Landesbank	0.75%	11/30/2015	Oct 1, 2011, 2013 & 2015	Prime +3%, Fed Funds + 5% or LIBOR + 3%	1-30 days: Base Rate 31-90 days: Base + 1% >90 days: Base + 2%
2002D	Landesbank Baden Wurttemberg	0.75%	11/30/2015	Oct 1, 2011, 2013 & 2015	Prime +3%, Fed Funds + 5% or LIBOR + 3%	1-30 days: Base Rate 31-90 days: Base + 1% >90 days: Base + 2%
2002E	Bayuerische Landesbank	0.75%	11/30/2015	Oct 1, 2011, 2013 & 2015	Prime +3%, Fed Funds + 5% or LIBOR + 3%	1-30 days: Base Rate 31-90 days: Base + 1% >90 days: Base + 2%
2002F	Branch Banking & Trust Company	0.45%	10/1/2011	None	LIBOR + 2.75% or ≥ 4%	1-180 days: Base Rate >180 days: LIBOR + 3.25%, Total ≥ 4%

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, federal funds or LIBOR rate with a maximum of 20%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Banks, such bonds are no longer considered Bank Bonds. Payment of interest to the Banks 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 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 $499.9 million of variable rate bonds was "put" and not resold, under the installment loan agreements, the State would be required to repay the loans over a five year period for Series C – F and over a three year period for Series B plus interest at the Bank Bond rate. At June 30, 2010 there were no Bank Bonds held under the Liquidity Facilities.

The bonds are not subject to mandatory tender for purchase as a result of immediate termination of the liquidity agreements. Failure by the State to purchase bonds tendered for purchase results in the bonds bearing interest at a floating rate indexed to unsecured commercial paper for 75 days continuing thereafter at an interest rate of 12%.

Component Units

University of North Carolina System

The University of North Carolina at Chapel Hill

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

General Revenue, Series 2001B and 2001C

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

The University entered into a new line of credit agreement in the amount of $300 million with Wachovia Bank, N.A. ("the Bank") on September 21, 2006. Under the new line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on Variable Rate Demand Bonds (or Commercial Paper Bonds) delivered for purchase. Under the new line of credit agreement, the University may request that the Bank increase the commitment by increments of $25 million for a total commitment of up to $400 million. A request for increase is subject to the Bank's sole discretion, and the University cannot be in default under the agreement at the time of the request. During the fiscal year 2009, Wells Fargo purchased Wachovia Bank, N.A., but the line of credit agreement remains in place under original terms and conditions.

The University is required to pay a quarterly facility fee for the line of credit in the amount of .08% per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor's (S&P), Fitch Ratings (Fitch), or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the lowest rating in the below table shall apply:

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

NOTES TO THE FINANCIAL STATEMENTS

In the event that the Bank increases the available commitment prior to the due date for payment of a facility fee, upon request by the University as referenced in the prior paragraph, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the prime rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the Trust Agreement for the original bonds. The University is required to begin making a series of 10 fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of purchase. Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/10th of the original amount of the Commercial paper bonds for a period of up to 10 rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement expires on September 21, 2011 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.

North Carolina Central University

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

Revenue Bonds Series 2003A

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

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has an Irrevocable Letter of Credit (LOC) for $21.82 million. The LOC is to secure the payment of the principal and purchase price of interest on the Series 2003 Bonds. The LOC was issued by Wachovia 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, 2010. At June 30, 2010, the LOC rate for the bonds was 1.5% and no amounts were drawn on it.

The Foundation paid Wachovia Bank, N.A. a commitment fee of $109 thousand for the letter of credit on the date the bonds were issued. If the Foundation terminates the letter of credit on or before August 31, 2010, then the Foundation must pay a termination fee of $25 thousand. 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 Wachovia 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 Wachovia Bank, N.A. for the Series 2003A Bonds. At June 30, 2010, the remarketing fee rate for the bonds was 0.28%.

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, Wachovia 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, 2010, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the Purchase Date along with accrued interest at the Liquidity Provider rate. In the event the entire issue of $43.73 million of demand bonds was "put" and not resold, the University would be required to pay $15 million a year for three years under this agreement assuming a 3.25% interest rate.

General Revenue Bonds, Series 2008A

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

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

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bank of America, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.2% of the available commitment, payable quarterly in arrears, beginning on October 1, 2008 and on each October 1, January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (the greater of the bank prime commercial lending rate and federal funds rate plus 3%) for 30 days. For the period of 31 through 60 days after purchase, the Bank Bonds bear interest at the Base Rate plus 1%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2010, there were no Bank Bonds held by the Liquidity Facility. The Liquidity Facility is scheduled to expire on July 10, 2011, unless otherwise extended based on the terms of the Agreement.

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

University of North Carolina Hospitals at Chapel Hill

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

Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55 million (2001A) and $55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15,

2002. A portion of the proceeds was used to reimburse the Hospitals for $75 million spent allowing the University of North Carolina (UNC) Health Care System to acquire controlling interest in Rex Healthcare Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

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

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thuringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the past fiscal year the percentage was 0.25% with the long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2014.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the formula rate (base rate equal to the higher of the prime rate for such day or the sum of 0.5% plus the federal funds rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July and October) for each period in which Bank Bonds are outstanding. At June 30, 2010 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 $99.6 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $21.66 million a year for five years under the installment loan agreement assuming an 3.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2011, or October 11, 2014 by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of Liquidity Provider.

Revenue Refunding Bonds, Series 2003A and Series 2003B

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

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

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

The 2003A Agreement with Bank of America, N.A. was amended on June 9, 2010 and requires a facility fee equal to 0.58% of the available commitment for Series 2003A payable quarterly in arrears, beginning on August 1, 2010, and on each November 1, February 1, May 1, and August 1, thereafter until the expiration date or the termination date of the Agreement. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt assigned by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.78%
A- or lower	A3 or lower	0.98%

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime rate plus 1.50% or the Federal Funds Rate plus 3.0%, the Base Rate, for the first 90 days and then the Base Rate plus 0.50% from the 91st day to the 367th day following the date of purchase and the Base Rate plus 1.0% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2010, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem bank bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding $61.53 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $23.39 million, $22.57 million and $21.39 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 current expiration date of the Series 2003A Agreement is July 1, 2011. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider.

The 2003B Agreement with Wells Fargo Bank, National Association was amended on June 30, 2010 and requires a facility fee equal to 0.60% of the available commitment for Series 2003B payable quarterly in arrears, beginning on November 1, 2010, and on each February 1, May 1, August 1, and November 1 thereafter until the expiration date or the termination date of the Agreement. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt assigned by S&P and Moody's is A+/A1 or higher. If the rating assigned to Parity Debt by either S&P or Moody's is downgraded below A+ or A1, respectively, the adjusted UNCH 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:

Adjusted UNC Hospitals Commitment Rate (lowest rating to be used):

S&P	Moody's	Commitment Rate
A	A2	0.75%
A-	A3	0.90%
BBB+	Baa1	1.10%
BBB+	Baa2	1.35%
BBB-	Baa3	1.65%
Below investment grade	Below investment grade	2.65%

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime rate plus 1.00%; the Federal Funds Rate plus 2.0% or 7.00%, the Base Rate, plus 2% subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. At June 30, 2010, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem bank bonds in 11 equal quarterly installments of principal, on the first business day of each February, May, August and November, beginning on the first of such dates that occurs at least 90 days after the Purchase Date of such Bank Bonds. The Hospitals shall pay interest in arrears on each date that would be an Interest Payment Date for the Series 2003B Bonds, beginning on the first Interest Payment Date that occurs after the Loan Date. If the take out agreement were to be exercised because the entire outstanding $33.07 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $11.09 million, $13.87 million and $12.79 million in years one, two and three respectively following the purchase date of the Bank Bonds assuming a Base Rate of 7%.

The current expiration date of the Series 2003B Agreement is July 31, 2011. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider.

Revenue Refunding Bonds-Series 2009A

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

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a Business Day not less than seven days before the Purchase Date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S Bank, N.A., no later than 12:00 noon on such Purchase Date. The Hospitals' Remarketing Agents, Banc of America Securities LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.09% of the weighted average daily principal amount of Series 2009A Bonds outstanding during such periods in which the Series 2009A bonds are Variable Rate Bonds.

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

State Education Assistance Authority

Guaranteed Student Loan Revenue and Refunding Bonds

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.

Series 2008-2. In October 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-2. Of the original principal, $309.9 million in two tranches of tax-exempt bonds remains outstanding at June 30, 2010. Series A1 in the amount of $150 million matures on July 1, 2036, but $25 million must be retired by mandatory sinking fund redemption on July 1, 2016. Series A2 in the amount of $159.9 matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2006Q and 2005A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Series 2008-3. In November 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-3. Of the original principal, $105.9 in two tranches of tax-exempt bonds remains outstanding at June 30, 2010. Series A1 in the amount of $30 million matures on July 1, 2027. Series A2 in the amount of 75.9 million matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1997E and 2005A bonds, make deposits into the reserve fund, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Series 2008-5. In December 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-5. Of the original principal, $159.9 million in one tranche of tax-exempt bonds remains outstanding at June 30, 2010. This series of bonds matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Each of the 2008 variable rate demand bonds described herein are being remarketed pursuant to remarketing agreements, and each is backed by an irrevocable letter of credit in favor of The Bank of New York Mellon as bond trustee. Three different banks issued the letters of credit (RBC Bank, Bank of America, N.A., and BB&T Corp.). There have been no draws on the letters of credit, but there are "Facility Fees" payable to the issuing banks set at 0.9%.

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, 2010 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						
	General Obligation Bonds			Certificates of Participation		Lease-Purchase Revenue Bonds	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2011	$ 379,325	$ 216,261	$ 14,774	$ 47,740	$ 42,393	$ 10,000	$ 10,154
2012	379,940	196,236	14,774	48,550	40,092	10,000	9,687
2013	391,490	178,177	14,127	49,395	37,889	10,000	9,220
2014	391,685	162,375	12,562	50,290	35,515	10,000	8,749
2015	390,955	146,664	11,013	51,245	33,089	10,000	8,257
2016-2020	1,925,530	509,968	26,877	273,440	126,158	64,000	33,574
2021-2025	1,167,665	197,541	—	269,080	56,738	101,045	10,182
2026-2030	244,070	25,591	—	82,860	6,526	—	—
Total	$ 5,270,660	$ 1,632,813	$ 94,127	$ 872,600	$ 378,400	$ 215,045	$ 89,823

	Governmental Activities					
	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 19,960	$ 26,967	$ 61,745	$ 20,251	$ 5,501	$ 962
2012	20,710	26,219	40,535	17,570	5,250	772
2013	21,565	25,425	42,375	15,786	4,926	636
2014	22,440	24,552	42,520	13,803	2,972	524
2015	23,390	23,603	34,290	11,816	3,041	426
2016-2020	134,110	100,742	182,805	33,790	8,952	694
2021-2025	169,840	66,066	30,555	1,490	—	—
2026-2030	168,690	20,614	—	—	—	—
Total	$ 580,705	$ 314,188	$ 434,825	$ 114,506	$ 30,642	$ 4,014

The general obligation bonds include $355 million of variable rate debt without interest rate swaps. For this debt, the variable interest rates change on a weekly basis and are based on the rate paid by each bank. The banks base their rate on what they perceive to be the market (seven-day) for debt of this type given the credit standing of the unit of government. The general obligation bonds also include $499.87 million of variable rate debt with interest rate swaps (see Note 7).

	Business-type Activities			
	Revenue Bonds		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2011	$ —	$ 35,649	$ —	$ —
2012	—	35,649	—	—
2013	—	35,649	—	—
2014	—	35,649	—	—
2015	—	35,649	—	1,172
2016-2020	32,829	176,555	—	14,456
2021-2025	99,825	160,691	93	14,775
2026-2030	173,912	124,984	3,920	14,225
2031-2035	176,848	131,448	10,494	13,132
2036-2040	139,344	90,641	20,688	10,202
2041-2045	—	—	33,605	3,279
Total	$ 622,758	$ 862,564	$ 68,800	$ 71,241

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
2011	$ 88,335	$ 114,260	$ 8,342	$ 2,150	$ 1,270	$ 9,144	$ 2,787
2012	99,390	110,146	8,234	2,230	1,192	37,755	5,261
2013	100,660	106,891	8,104	2,335	1,086	47,532	2,099
2014	102,645	103,243	7,917	2,420	999	32,747	1,990
2015	103,025	99,655	7,779	585	903	3,897	1,640
2016-2020	504,565	445,095	32,767	3,305	4,143	10,084	6,171
2021-2025	514,065	360,003	18,558	4,085	3,358	8,845	3,794
2026-2030	469,120	268,112	3,021	5,095	2,344	10,074	1,495
2031-2035	693,340	147,762	—	6,435	1,008	—	—
2036-2040	199,740	18,067	—	410	18	—	—
Total	$ 2,874,885	$ 1,773,234	$ 94,722	$ 29,050	$ 16,321	$ 160,078	$ 25,237

	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
2011	$ 171,615	$ 63,662	$ 2,201	$ 84,800	$ 36,010	$ 120,500	$ 5,754
2012	38,260	62,036	2,155	—	36,010	120,500	5,754
2013	41,085	60,362	2,110	—	36,010	120,500	5,754
2014	42,190	58,515	2,067	—	36,010	1,199,025	3,117
2015	43,995	56,558	2,027	—	36,010	—	—
2016-2020	200,400	252,762	9,447	300,000	179,855	—	—
2021-2025	192,055	207,323	7,983	—	168,379	—	—
2026-2030	297,345	151,003	5,343	27,900	167,977	—	—
2031-2035	299,725	75,315	1,650	1,176,450	91,591	—	—
2036-2040	143,500	14,061	—	524,500	1,794	—	—
Total	$ 1,470,170	$ 1,001,597	$ 34,983	$ 2,113,650	$ 789,646	$ 1,560,525	$ 20,379

For revenue bonds of the University of North Carolina System and the State Education Assistance Authority, the fiscal year 2011 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 20, 2009, the State of North Carolina issued $371.92 million in General Obligation Refunding Bonds, Series 2009A with an average interest rate of 4.99% and a true interest cost of 2.26%. The bonds are dated October 20, 2009 and will bear interest from that date. The bonds will mature from March 1, 2010 through 2020 inclusive. The bonds were issued to advance refund $18.5 million of outstanding Public School Bonds, Series 1999 with an average coupon interest rate of 4.6%; $99.46 million of outstanding Public Improvement Bonds, Series 2001A with an average coupon interest rate of 4.75%; $173 million of Highway Bonds, Series 2003 with an average coupon interest rate of 4.83%; $40 million of Highway Bonds, Series 2004 with an average coupon interest rate of 5%; and $60 million of Higher Education Bonds, Series 2006A with an average coupon interest rate of 5%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by $26.7 million over the next 11 years and resulted in an economic gain of $22.1 million. At June 30, 2010, the outstanding balance was $372.46 million for the defeased bonds.

Component Units

University of North Carolina System

University of North Carolina at Greensboro

On March 31, 2010, the University of North Carolina at Greensboro issued $23.78 million in The University of North Carolina System Pooled Revenue Bonds, Series 2010B-2, refunding bonds with an average interest rate of 4.79%. The bonds were issued to advance refund $14.49 million of outstanding University of North Carolina at Greensboro, Series 2001A, General Revenue Bonds with an average interest rate of 4.97% and $10.05 million of outstanding University of North Carolina at Greensboro, Series 2001B, General Revenue Bonds with an average interest rate of 5.08%. The net proceeds of the refunding bonds (along with other resources) were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by $1.66 million over the next 15 years and resulted in an economic gain of $1.25 million. At June 30, 2010, the outstanding balance was $14.49 million for the University of North Carolina at Greensboro, Series 2001A, General Revenue Bonds and $10.05 million for the University of North Carolina at Greensboro, Series 2001B, General Revenue Bonds.

University of North Carolina at Charlotte

On March 31, 2010, the University issued $13.77 million in The University of North Carolina System Pool Revenue Bonds, Series 2010B-1 refunding bonds with an average interest rate of 4.46%. The bonds were issued to advance refund $13.36 million of outstanding The University of North Carolina at Charlotte 2002A General Revenue Promissory Note bonds with an average interest rate of 5.21%. The net proceeds of the refunding bonds, along with other resources, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by $800 thousand over the next 15 years and resulted in an economic gain of $448 thousand. At June 30, 2010, the outstanding balance was $13.36 million for the defeased The University of North Carolina at Charlotte 2002A General Revenue Promissory Note bonds.

University of North Carolina at Wilmington

On March 31, 2010 the University issued $11.01 million in 2010C refunding bonds with an average interest rate of 4.59%. The bonds were issued to advance refund $10.81 million of outstanding General Revenue 2003A bonds with an average interest rate of 5.25%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by $585 thousand over the next 12 years and resulted in an economic gain of $454 thousand. At June 30, 2010, the outstanding balance was $10.81 million for the defeased General Revenue 2003A bonds.

State Education Assistance Authority

During the year ended June 30, 2010, the Authority entered into funding note purchase agreements in the amount of $745 million with an initial interest rate of 0.232% and $832 million with an initial interest rate of 0.277%. The refunding component of these agreements was used for a current refunding of $1.49 billion of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 2.26%. The refunding was undertaken to reduce total debt service payments by $765.66 million over the next 27 years and resulted in an economic gain of $107.36 million.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net assets. At June 30, 2010, the outstanding balance of prior year defeased bonds was $372 million for the primary government and $105.35 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 with premiums ranging up to 0.5% for up to 12 years after the date of issue.

H. Federal Unemployment Account Advances

During fiscal year 2010, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of $2.29 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 repayable advances are currently interest free through December 31, 2010. The total amount collected from unemployment tax contributions that was used to pay down the principal on the repayable advances was $873.54 million. At year-end, the outstanding balance of the FUA advances was $2.15 billion. Currently, the repayable advances are payable solely from the unemployment tax contributions and these contributions will be used specifically for paying down the debt until it is settled. Meanwhile, the state unemployment benefits will continue to be paid from the repayable advances.

I. Pollution Remediation Payable

Primary Government

Governmental Activities

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environment and Natural Resources assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 36 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 $6.549 million, of which $5.571 million was for leaking underground fuel tanks at DOT and $978 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.

Business-type Activities

The Department of Agriculture and Consumer Services had electrical transformers reconditioned or repaired at the former Ward Transformers industrial site in Wake County, a Superfund site, and was named by the U.S. Environmental Protection Agency as a responsible party for remediation expenses. The electrical transformers had been used by the N.C. State Fair. Based on an approved settlement, the State recognized a pollution remediation liability of $250 thousand at the end of the previous fiscal year. At June 30, 2010, this liability was zero.

Component Units

University of North Carolina System

Fayetteville State University recognized a pollution remediation liability of $30 thousand for the voluntary commencement of asbestos removal and underground storage tank removal at a campus building. The amount of the liability was derived from the estimated costs of the abatements and removals.

NOTE 9: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for communications, computer, and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when incurred. For the year ended June 30, 2010, total operating lease expenditures were $80.91 million for Primary Government, $54.81 million for the University of North Carolina System, and $7.14 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2010 are as follows (dollars in thousands):

	Operating Leases			Capital Leases		
		Component Units			Component Units	
Fiscal Year	Primary Government	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2011	$ 55,860	$ 35,134	$ 5,594	$ 2,177	$ 21,638	$ 2,719
2012	37,259	24,864	4,631	2,018	16,575	2,734
2013	24,687	19,845	3,726	2,012	15,258	2,645
2014	18,103	13,270	2,698	2,014	13,828	2,354
2015	13,018	8,226	1,972	1,959	12,372	2,316
2016 - 2020	21,845	31,484	7,716	9,784	63,432	11,001
2021 - 2025	8,082	21,502	3,930	9,584	68,599	11,001
2026 - 2030	8,082	11,768	2,185	—	69,168	10,818
2031 - 2035	8,082	86	610	—	71,703	—
2036 - 2040	8,082	75	—	—	35,123	—
2041 - 2045	8,082	24	—	—	—	—
2046 - 2050	8,082	24	—	—	—	—
2051 - 2055	3,233	24	—	—	—	—
2056 - 2060	—	24	—	—	—	—
Total Future Minimum Lease Payments..........	$ 222,497	$166,350	$ 33,062	29,548	387,696	45,588
Less: Amounts Representing Interest				(6,733)	(163,285)	(20,258)
Present Value of Future Minimum Lease Payments				$ 22,815	$ 224,411	$ 25,330

At June 30, 2010, 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	$ 218,447	$ 29,265
Machinery and Equipment......................	737	26,802	2,483
Other..	—	1,253	—
Less: Accumulated Depreciation..........	—	(34,299)	(1,839)
Total Capital Assets...............................	$ 26,788	$ 212,203	$ 29,909

NOTE 10: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $64.235 million due to fiduciary funds is composed primarily of $17.773 million related to local sales taxes collected in the general fund and due to the agency fund, as well as $46.462 million related to retirement contributions payable to retirement systems at year end. The other balances due to fiduciary funds are related to balances held on behalf of patients at the State's mental health facilities.

The other balances due from fiduciary funds are primarily for services provided to pension and other employee benefit trust funds. 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, 2010, consisted of the following (dollars in thousands):

	Due From Other Funds					
	General Fund	Highway Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	Total
Due To Other Funds						
General Fund	$ —	$ —	$ 6,262	$ —	$ 18,807	$ 25,069
Highway Fund	—	—	3,772	—	2,593	6,365
Highway Trust Fund	—	13,653	—	—	—	13,653
Other Governmental Funds	1,330	—	16,791	5,007	1,755	24,883
Unemployment Compensation Fund	—	—	45	—	—	45
EPA Revolving Loan Fund	—	—	—	—	17	17
NC State Lottery Fund	—	—	18,058	—	69	18,127
NC Turnpike Authority	—	—	—	—	3	3
Nonmajor Enterprise Funds	—	—	—	—	102	102
Internal Service Funds	—	—	3	—	897	900
Total	$ 1,330	$ 13,653	$ 44,931	$ 5,007	$ 24,243	$ 89,164

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 balance of $18.279 million advance 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, 2010 consisted of the following (dollars in thousands):

	Transfers In							
Transfers Out	General Fund	Highway Fund	Other Governmental Funds	EPA Revolving Loan Fund	NC Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	Total
General Fund	$ —	$ 1,689	$ 423,843	$ 6,419	$ —	$ 1,900	$ 72	$ 433,923
Highway Fund	63,330	—	237,210	—	8,971	—	—	309,511
Highway Trust Fund	108,842	36,131	7,285	—	25,420	—	—	177,678
Other Governmental Funds	494,248	1,921	457,873	—	—	—	1,348	955,390
Unemployment Compensation Fund	—	—	17,350	—	—	—	—	17,350
EPA Revolving Loan Fund	429	—	—	—	—	—	—	429
NC State Lottery Fund	—	—	433,205	—	—	—	—	433,205
Other Enterprise Funds	24,508	—	1,285	—	—	—	—	25,793
Internal Service Funds	21,667	—	—	—	—	—	4,339	26,006
Total	$ 713,024	$ 39,741	$ 1,578,051	$ 6,419	$ 34,391	$ 1,900	$ 5,759	$ 2,379,285

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 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 $108.562 million.

House Bill 2436 [Session Law 2008-107], amends the law that created the Highway Trust Fund. The amendment decreased the amount directed to be transferred to the General Fund by $99 million, phased in over a three year period, beginning in fiscal year 2008-09. The amendment further directs that these funds are to be transferred to the N.C. Turnpike Authority (NCTA) to pay debt service or related financing expenses on revenue bonds or notes issued for the following toll road construction projects: Triangle Expressway, Monroe Connector/Bypass, Mid-Currituck Bridge, and Garden Parkway. As of June 30, 2010 debt had been issued for the Triangle Expressway, and $25 million was transferred to the NCTA.

In compliance with the North Carolina State Lottery Act, House Bill 1023 [Session Law 2005], all "Net Revenues" of the NC State Lottery Fund are required to be transferred to the Education Lottery Fund (other governmental funds) for educational purposes. The total transfer for this fiscal year was $432.205 million, as set forth in General Statute 18C-164.

NOTE 11: FUND BALANCE RESERVES

Reserved Fund Balance. The State's reserved fund balances represent those portions of the fund balances that are either (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource for current appropriation or expenditure, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. The reserved fund balances at June 30, 2010, are (dollars in thousands):

	Governmental Funds				
	General Fund	*Highway Fund*	*Highway Trust Fund*	*Other Governmental Funds*	*Total Governmental Funds*
Specific encumbrances	$ 63,745	$ 10,818	$ —	$ —	$ 74,563
Inventories	65,391	84,963	—	49,132	199,486
Permanent investments	—	—	—	84,766	84,766
Notes receivable	21,830	1,035	81	301,821	324,767
Compensated absences charged to federal projects	—	28,177	—	—	28,177
Capital projects commitments	—	—	—	179,956	179,956
GARVEE Bonds	—	156,077	—	—	156,077
Advance to component unit	—	—	—	21,742	21,742
Loan and grant commitments	—	2,637	—	254,934	257,571
Advance to other funds	—	—	18,279	—	18,279
General government	12,652	—	—	—	12,652
Primary and secondary education	9,066	—	—	—	9,066
Higher education	2,941	—	—	—	2,941
Health and human services	13,593	—	—	—	13,593
Economic development	14,907	—	—	—	14,907
Environment and natural resources	360	—	—	—	360
Public safety, corrections and regulation	19,873	—	—	—	19,873
Total reserved fund balance	$ 224,358	$ 283,707	$ 18,360	$ 892,351	$ 1,418,776

NOTE 12: RETIREMENT PLANS

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

A. Plan Descriptions and Contribution Information

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

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, Local Education Agencies (LEAs), and miscellaneous educational units not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and miscellaneous educational units. At June 30, 2010, the number of participating employers was 243 as shown below:

LEAs and miscellaneous units	163
Community Colleges	58
University of North Carolina System	19
Proprietary component units	3

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially based required employer contribution established by legislation. For the fiscal year ended June 30, 2010, the State made a statutory contribution of 3.57% of covered payroll. This also equaled 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, 2010, the State made a statutory contribution of 15.11% of covered payroll. This also equaled 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.

NOTES TO THE FINANCIAL STATEMENTS

3. *LEGISLATIVE RETIREMENT SYSTEM*

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

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

Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially based employer contributions. For the fiscal year ended June 30, 2010, 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 defined benefit pension plan established by the State of North Carolina 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, 2010, there were 1,934 participating fire and rescue units. This is a special funding situation in that the State is not the employer but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by a ten dollar 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 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, 2010, there were 80 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, 2010, there were 83 sheriffs and four 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, 2010, the Clerks remitted $1.207 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, 2010, the number of participating local governments was 892, as shown below:

Cities	419
Counties	100
Special districts	373

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) for all employers was 4.71% of covered payroll for law enforcement officers and 4.24% for general employees and firemen. The actual contributions were 5.27% for law enforcement officers and 4.80% for general employees. 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	156,791	529	270	10,911	3,677	84	46,557
Terminated employees entitled to benefits but not yet receiving them	97,474	52	83	140	4,625	-	38,076
Active plan members	323,580	559	169	37,288	6,203	100	123,398
Total	577,845	1,140	522	48,339	14,505	184	208,031
Date of valuation	*12-31-09*	*12-31-09*	*12-31-09*	*6-30-09*	*12-31-09*	*12-31-09*	*12-31-09*

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 Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios.

The investment balance of each pension trust fund represents its share of the fair value of the net assets of the various portfolios within the pool. Detailed descriptions of how the fair value is determined in the various portfolios are presented in Note 3. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 2009 (June 30, 2009, 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'	12/31/09	Entry age	Level dollar	9 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
Consolidated Judicial	12/31/09	Projected unit credit	Level dollar	9 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
Legislative	12/31/09	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/09	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
North Carolina National Guard	12/31/09	Entry age	Level dollar	9 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
Registers of Deeds'	12/31/09	Entry age	Level dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
Local Governmental Employees'	12/31/09	Frozen entry age	Level percentage	Various	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%

N/A-Not applicable

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

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

The projected investment returns and projected salaries for all systems, except the Legislative and Firemen's and Rescue Squad Workers, include a 3% inflationary factor within the actuarial assumption. The assumption for the Legislative system does not identify an inflationary factor. The assumption for the Firemen's and Rescue Squad Workers' includes a 3.75% 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, 2010, 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, 2007, the Legislative system was valued at December 31, 2008, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2008. 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, 2007, 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.

For the fiscal year ended June 30, 2010, retirees in the Local Governmental Employee system received a 0.1% cost of living adjustment. This benefit enhancement reflects legislation enacted by the North Carolina General Assembly or actions taken by the Board of Trustees effective July 1, 2009. This enhancement was either reflected as a liability in the valuations described above or paid for with the system's actuarial gains.

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	$ 10,248	$ —	$ 10,074	$ 5,682
Interest on net pension obligation	(202)	(13)	34	(32)
Adjustment to annual required contribution	359	45	(73)	66
Annual pension cost	10,405	32	10,035	5,716
Less: Contributions made	10,248	—	10,080	7,008
Increase (decrease) in net pension obligation	157	32	(45)	(1,292)
Net pension (asset) obligation beginning of year	(2,791)	(183)	474	(444)
Net pension (asset) obligation end of year	$ (2,634)	$ (151)	$ 429	$ (1,736)

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. Except for (A) below, 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, 2008 through June 30, 2010 (dollars in thousands)

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard
Primary Government:					
2010	$ 120,935	$ 10,405	$ 32	$ 10,035	$ 5,716
2009	127,152	8,510	38	9,714	6,316
2008 **(A)**	143,500	8,145	2	8,687	6,239
Component units:					
Universities:					
2010	$ 66,935				
2009	54,869				
2008	54,765				
Community Colleges:					
2010	$ 27,444				
2009	26,092				
2008	22,474				
Proprietary Funds:					
2010	$ 722				
2009	715				
2008	651				
Total Primary Government and Component Units:					
2010	$ 216,036	$ 10,405	$ 32	$ 10,035	$ 5,716
2009	208,828	8,510	38	9,714	6,316
2008	221,390	8,145	2	8,687	6,239
Percentage of APC Contributed:					
2010		99%	0%	100%	123%
2009		104%	0%	100%	93%
2008		133%	10,450%	100%	112%
Percentage of ARC Contributed:					
2010	100%				
2009	100%				
2008	100%				
Net Pension (Asset) Obligation:					
2010		$ (2,634)	$ (151)	$ 429	$ (1,736)
2009		(2,791)	(183)	474	(444)
2008		(2,438)	(221)	522	(868)

(A) - The State's contributions/pension cost for the Teachers' and State Employees' equals the statutorily required contribution plus $42 million for prior year actuarial deficits.

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'	12-31-09	$ 55,818,099	$ 58,178,272	$ 2,360,173	95.9%	$ 13,253,030	17.8%
Consolidated Judicial	12-31-09	$ 439,987	$ 474,949	$ 34,962	92.6%	$ 66,171	52.8%
Legislative	12-31-09	$ 29,792	$ 23,511	$ (6,281)	126.7%	$ 3,622	(173.4)%
Firemen's and Rescue Squad Workers'	6-30-09	$ 315,697	$ 351,324	$ 35,627	89.9%	N/A	N/A
North Carolina National Guard	12-31-09	$ 81,371	$ 121,855	$ 40,484	66.8%	N/A	N/A
Registers of Deeds'	12-31-09	$ 38,913	$ 21,840	$ (17,073)	178.2%	$ 6,092	(280.3)%
Local Governmental Employees'	12-31-09	$ 17,723,253	$ 17,804,791	$ 81,538	99.5%	$ 5,184,128	1.6%

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, 2010, the Plan had 13,238 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 $90.8 million for the fiscal year ended June 30, 2010. Annual covered payroll was $1.3 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 $79.7 million for the fiscal year ended June 30, 2010.

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

G. Special Separation Allowance

The State provides a special separation allowance (SSA), an agent multiple-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11b) or General Statutes 143-166.30(a)(4) that were employed by State agencies and component units and retired on a basic service retirement under the provisions of General Statutes 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement. Each eligible officer is paid an annual separation allowance equal to .85% of the officer's most recent base rate of compensation for each year of creditable service. For the fiscal year ended June 30, 2010, the State and its component units paid $12.9 million for 891 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 (the Board). The Board 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 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 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 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 Plan. The Plan is reported as a pension and other employee benefit trust fund and also discloses a related party transaction in Note 21 of this CAFR. All costs of administering and funding the Plan are the responsibility of the plan participants. The Plan's financial statements are available by contacting the N.C. Department of State Treasurer at 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 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 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 Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the Plan are the responsibility of the participants.

The 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, 2009, 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 Plan's financial statements are prepared using the accrual basis of accounting. Investments are reported at fair value. Securities and mutual funds are based on published quotations while bank investment contracts are stated at contract value. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the Plan. The Plan's financial statements are available by contacting the Supplemental Retirement Income Plan of North Carolina, 150 Fayetteville Street Mall, Suite 980, Raleigh, NC 27601.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the 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, 2009, 52 state agencies and component units along with 469 local governmental units outside our reporting entity contributed the required 5%. In addition, 5 state agencies and 443 local government employers contributed to the Plan on a voluntary basis.

The Plan also discloses a related party transaction in Note 21 of this CAFR. Through an agreement with the Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The Plan's investment risks are described in Note 3.

The Plan also reported total member contributions of $264.816 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2009, amounted to $179.2 million for the State, $15 million for universities, and $3 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for $9 million, by universities for $752 thousand, and by the remaining component units and community colleges for $159.3 thousand. In addition, the State contributed $518 thousand for required court cost assessments.

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.

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

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

INVESTMENTS /SECURITIES LENDING

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its Investment Pool. Investments are reported at fair value, which is based on quoted market prices. The investment balance of the Disability Income Plan represents its share of the fair value of the net assets of the various portfolios within the pool. The Retiree Health Benefit Fund currently does not have investments.

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

B. Plan Descriptions and Contribution Information

1. HEALTH BENEFITS

Pursuant to North Carolina General Statutes, the State makes available the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a cost-sharing multiple-employer defined benefit healthcare plan, exclusively for the benefit of employees and former employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), miscellaneous educational units, and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2010, the number of participating employers was 258 as shown below:

State of North Carolina	1
LEAs and miscellaneous units	163
Community Colleges	58
University of North Carolina System	19
Proprietary component units	3
Local governments	14

The Plan is reported as a major component unit. It is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. Plan benefits received by retired employees and disabled employees are other post employment benefits (OPEB). The healthcare benefits for retired and disabled employees are the same as for active employees as described in Note 15, except that the coverage becomes secondary when former employees become eligible for Medicare.

Those former employees who are eligible to receive medical benefits are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (UEORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Heath Plan's total noncontributory premium. There is no impact of this legislation in the current fiscal year.

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

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

For the current fiscal year, the State and the other employers contributed the legislatively mandated 4.5% of active employee salaries. The Fund is reported as an employee benefit trust fund. The State's total payments are shown in the table on the following page. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

2. *DISABILITY INCOME*

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

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2010, the State and the other employers made a statutory contribution of .52% of covered payroll. This was greater than the actuarially required contribution of .49%. 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, 2008 through June 30, 2010
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2010	$ 152,440	$ 17,615
2009	155,156	19,678
2008	135,051	17,128
Component units:		
Universities:		
2010	$ 140,450	$ 16,230
2009	120,128	15,236
2008	120,871	15,330
Community Colleges:		
2010	$ 34,593	$ 3,997
2009	31,838	4,038
2008	30,015	3,807
Proprietary Funds:		
2010	$ 910	$ 105
2009	873	111
2008	870	110
Total Primary Government and Component Units:		
2010	$ 328,393	$ 37,947
2009	307,995	39,063
2008	286,807	36,375
Percentage Contributed:		
2010	100%	100%
2009	100%	100%
2008	100%	100%

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

	Retiree Health Benefit	Disability Income
Employee Groups		
Retirees and beneficiaries currently receiving benefits	164,286	n/a
Disabled members receiving long term disability benefits	n/a	6,089
Terminated employees entitled to benefits but not yet receiving them	33,572	-
Active plan members	346,766	329,993
Total	544,624	336,082
Date of valuation	*12/31/09*	*12/31/09*

The funded status of each plan as of the most recent actuarial valuation date is as follows (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)	12/31/09	$ 556,303	$ 33,321,784	$ 32,765,481	1.7%	$ 15,131,146	216.5%
Disability Income (2)	12/31/09	$ 352,628	$ 492,731	$ 140,103	71.6%	$ 14,534,661	1.0%

(1) The AAL has been prepared using the projected unit credit cost method.
(2) The AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.
(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Aon Consulting reported the adjusted, annualized payroll for postemployment health benefits.

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, 2009. The latest actuarial valuation for DIPNC is dated December 31, 2009. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial assumptions used for the Retiree Health Benefit are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions are based on the most recent experience study prepared as of December 31, 2009 and adopted beginning with the December 31, 2009 pension valuation. The discount rate used for Retiree Health reflects a pay-as-you-go approach.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

	Retiree Health Benefit	Disability Income
Valuation Date	12/31/09	12/31/09
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent of pay
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value of Assets	5 year smoothed with 80%/120% corridor
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	5.75%
Healthcare Cost Trend Rate (2) (3)	9% initial 5% ultimate	N/A
Projected Salary Increases (4) (5)	N/A	4.3%-9.1%

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

(2) For the Retiree Health Benefit, the investment rate of return includes an inflation and productivity rate of 3.50%. For the DIPNC, the investment rate of return includes only inflation of 3.00%. For the Retiree Health Benefit, effective with the December 31, 2009 valuation, the assumed annual rate of inflation has been reduced from 3.75% to 3.50%, resulting in an increase in the amortization of the UAL of $40 million. The current 3.50% annual rate of inflation is comprised of 3.00% inflation and .50% productivity.

(3) Trend rates apply to both Medicare eligible and pre-Medicare-eligible members.

(4) Aon Consulting used the projected unit credit method which does not include salaries, thus salary increases are not applicable for FY2010.

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

N/A Not Applicable

NOTE 15: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

Public School Insurance Fund

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 91 out of 115 LEAs and 29 out of 58 community colleges.

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

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

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

	Fiscal Year	
	2010	2009
Unpaid claims at beginning of year ...	$ 457	$ 292
Incurred claims:		
Provision for insured events of the current year	1030	2,408
Increases (decreases) in provision for insured events of prior years	(181)	106
Total incurred claims	849	2,514
Payments:		
Claims attributable to insured events of the current year	373	1,746
Claims attributable to insured events of the prior years	403	603
Total payments	776	2,349
Total unpaid claims at end of the year	$ 530	$ 457

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

B. Employee Benefit Plans

1. State Health Plan

In accordance with Chapter 135, Article 3A, Part 3, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. This care is also extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

Coverage is self-funded by contributions to the Plan, which is reported as a major component unit. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the Preferred Provider Organization (PPO) plans. The authority for the PPO plans is provided in General Statute 135-39.5B.

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
2008-09	$ 263,242	$ 2,458,583	$ (2,463,675)	$ 258,150
2009-10	258,150	2,381,897	(2,386,718)	253,329

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, 2009 to June 30, 2010, 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 2009 to June 2010.

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
2008-09	$ 4,181	$ 38,072	$ (38,993)	$ 3,260
2009-10	3,260	42,040	(41,861)	3,439

3. Disability Income Plan of North Carolina

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

C. Other Risk Management and Insurance Activities

1. Automobile, Fire and Other Property Losses

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

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

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums discounted from industry manual rates. 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 deductible 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
2008-09	$ 2,076	$ 1,785	$ (1,771)	$ 2,090
2009-10	2,090	492	(805)	1,777

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

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

b. Self-Insurance through the Liability Insurance Trust Fund

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

For the periods ending June 30, 2009 and June 30, 2010, 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, 2009 and June 30, 2010, 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. Additionally, in fiscal year 2010, the participants contributed an additional $1.006 million to replenish the Reimbursement Fund to its original $10 million level.

For the fiscal year ending June 30, 2010, the Trust Fund purchased a direct insurance policy to cover the first $1 million per occurrence and $3 million annual aggregate limits of coverage. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to $30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date. The Trust Fund council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of $45.215 million and $48.292 million are the present values of the aggregate actuarially determined claims liabilities of $44.181 million and $47.466 million, discounted at 2.5% at June 30, 2009 and 2.5% at June 30, 2010. 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
2008-09	$ 60,958	$ 3,868	$ (19,611)	$ 45,215
2009-10	45,215	8,083	(5,006)	48,292

3. Public Officers' and Employees' Liability Insurance

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

4. Employee Dishonesty and Computer Fraud

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

5. Statewide Workers' Compensation Program

The Workers' Compensation Program (the Program) was created by Chapter 97, Article 1, of the General Statutes to provide benefits to workers injured on the job. All employees of the State and its component units are included in the Program. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Also, certain occupational diseases specifically designated in the North Carolina Workers' Compensation Act are compensable. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits. Payments of all medical benefits are subject to approval based on a fee schedule established by the North Carolina Industrial Commission (NCIC). Loss of wages and disability benefits are payable based on 66 2/3% of an employee's average weekly salary subject to a statutory compensation rate minimum and maximum established annually by the NCIC. Death benefits are payable for 400 weeks at 66 2/3% of an employee's average weekly salary. In certain instances, death benefits may be extended beyond the 400 weeks.

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

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

Each state agency and participating component unit is billed for claims and an administrative fee which is paid by the fund to the third party administrator. This fund is reported as an internal service fund in this report. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. Since the related liability is not measurable, claim costs are recognized when paid. The Department of Transportation is the only state agency that sets up a reserve for claims. For the year ended June 30, 2010, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	$ 93,290
University of North Carolina System	8,368
All other component units	33
Total	$ 101,691

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, 2010 was $1.9 million. As of June 30, 2010, the Fund consisted of 1,225 eligible units representing approximately 45,422 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, 2010, 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, 2010, there are claims recoverable from reinsurers in the amount of $3 thousand.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2008-09	$ 15,043	$ 6,104	$ (5,901)	$ 15,246
2009-10	15,246	6,198	(5,801)	15,643

7. Health Insurance Program for Children

The Health Insurance Program for Children (the Program) is an insurance enterprise reported within the General Fund. The Program was created by Chapter 108A, Article 2, Part 8, of the General Statutes to provide comprehensive health insurance coverage to uninsured low-income children who are residents of this State, including coverage for dental, hearing, and vision services and supplies.

Coverage is provided from federal funds received, state funds appropriated, and other nonappropriated funds made available for this purpose. All appropriations, allocations, premium receipts, or any other receipts, including earnings on investments, occurring or arising in connection with acute medical care benefits provided under the Program are deposited into the Child Health Insurance Fund (the Fund). Disbursements from the Fund include any and all amounts required to pay the benefits and administrative costs of the Program. For the fiscal year ended June 30, 2010, $77.05 million was appropriated from the General Fund to the North Carolina Department of Health and Human Services (DHHS) to be used for the Program.

The Program is administered by DHHS. Eligible children may be enrolled by the Division of Social Services based on the availability of funds. The North Carolina State Health Plan for Teachers and State Employees (The Plan) was responsible for the administration and processing of claims for benefits under the Program, as provided under Chapter 135, Article 3A, Part 5 of the General Statutes, until June 30, 2010. The Plan shall not incur any financial obligations for the Program in excess of the amount of funds that the Plan receives for the program. Effective July 1, 2010, the administration and processing of claims for benefits under the Program was transferred to DHHS as outlined in HB 2436 SL 2008-107 Sec 10.13(b) General Statute 135-47.

NOTES TO THE FINANCIAL STATEMENTS

Annual enrollment fees, co-payments, or other cost-sharing charges are determined by family income. However, there are no enrollment fees, deductibles, co-payments, or other cost-sharing charges for families covered under the Program whose family income is at or below 150% of the federal poverty level. A family's total annual aggregate cost-sharing charges shall not exceed 5% of the family's income for the year involved. The Program had an enrollment of 144,723 children as of June 30, 2010, and an average enrollment of 140,389 children insured during the year.

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. The following schedule shows the changes in the claims liability for the Program's past two years of operation (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2008-09	$ 26,602	$ 224,071	$ (226,175)	$ 24,498
2009-10	24,498	240,730	(246,728)	18,500

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, 2010 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2010

(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	$ 56,696	$ 574	$ 21	$ 294	$ 1,375	$ 29,553
Investments:						
U.S government and agency securities	—	—	—	—	—	—
Mortgage pass throughs	—	—	—	—	—	—
Collateralized mortgage obligations	—	—	—	—	—	—
Government bonds	—	—	—	—	—	—
Asset-backed securities	—	—	—	—	—	—
Repurchase agreements	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Certificates of deposit	—	—	—	—	—	—
Mutual funds	—	—	—	—	—	—
State Treasurer investment pool	48,725,147	386,382	25,965	283,486	71,553	15,760,910
Non-State Treasurer pooled investments	—	—	—	—	—	—
Securities lending collateral	3,073,700	24,292	1,631	17,807	4,742	992,457
Receivables:						
Accounts receivable	2,917	31	—	28	9	3,202
Interest receivable	339	2	1	2	2	78
Contributions receivable	45,463	—	—	—	—	32,537
Due from other funds	28,839	1,204	21	—	—	—
Due from component units	5,758	—	—	—	—	—
Notes receivable	—	—	—	—	—	—
Total Assets	51,938,859	412,485	27,639	301,617	77,681	16,818,737
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable	—	—	—	—	—	—
Benefits payable	1,193	—	—	3	12	734
Obligations under securities lending	3,163,830	25,008	1,677	18,327	4,889	1,022,618
Total Liabilities	3,165,023	25,008	1,677	18,330	4,901	1,023,352
Net Assets						
Held in trust for:						
Employees' pension and other benefits	48,773,836	387,477	25,962	283,287	72,780	15,795,385
Total Net Assets	$ 48,773,836	$ 387,477	$ 25,962	$ 283,287	$ 72,780	$ 15,795,385

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
$ 12,419	$ 45	$ 2,535	$ 565,536	$ 12,584	$ 1,791	$ 28	$ 683,451
607,742	94,512	—	—	—	—	—	702,254
199,708	4,627	—	—	—	—	—	204,335
49,768	17,607	—	—	—	—	—	67,375
29,966	3,867	—	—	—	—	—	33,833
9,322	11,217	—	—	—	—	—	20,539
—	2,300	—	—	—	—	—	2,300
330,715	35,767	—	—	—	—	—	366,482
4,409	852	—	—	—	—	—	5,261
95,722	31,607	—	—	—	—	—	127,329
—	—	342,618	—	345,615	—	40,380	65,982,056
3,098,767	501,882	—	—	—	—	—	3,600,649
274,587	—	56,603	111,351	59,133	354	6,626	4,623,283
5,234	65	—	—	8,404	—	—	19,890
9,044	976	3	669	17	2	—	11,135
7,623	92	1,008	25,239	2,911	—	67	114,940
—	—	482	14,295	1,621	—	—	46,462
—	—	96	3,976	459	—	—	10,289
198,948	8,756	—	—	—	—	—	207,704
4,933,974	714,172	403,345	721,066	430,744	2,147	47,101	76,829,567
52,166	2,252	128	—	—	—	—	54,546
—	—	3,439	—	84	—	—	5,465
274,587	—	58,657	115,030	61,211	364	6,858	4,753,056
326,753	2,252	62,224	115,030	61,295	364	6,858	4,813,067
4,607,221	711,920	341,121	606,036	369,449	1,783	40,243	72,016,500
$ 4,607,221	$ 711,920	$ 341,121	$ 606,036	$ 369,449	$ 1,783	$ 40,243	$72,016,500

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2010
(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	$ 492,779	$ 10,740	$ —	$ —	$ —	$ 273,337
Members	835,807	4,633	256	2,619	—	329,328
Other contributions	—	—	—	10,080	7,008	—
Total contributions	1,328,586	15,373	256	12,699	7,008	602,665
Investment Income:						
Investment earnings (loss)	5,865,085	46,372	3,194	33,949	8,322	1,856,620
Less investment expenses	(232,666)	(1,842)	(125)	(1,351)	(336)	(74,568)
Net investment income (loss)	5,632,419	44,530	3,069	32,598	7,986	1,782,052
Other additions:						
Fees, licenses and fines	—	—	—	—	—	4,343
Miscellaneous	3,256	—	—	6	—	25
Total other additions	3,256	—	—	6	—	4,368
Total additions	6,964,261	59,903	3,325	45,303	14,994	2,389,085
Deductions:						
Claims and benefits	3,201,608	29,629	1,968	22,665	6,477	805,726
Medical insurance premiums	—	—	—	—	—	—
Refund of contributions	75,927	23	35	432	—	40,271
Administrative expenses	10,962	29	11	894	63	4,547
Other deductions	1	—	—	—	—	1
Total deductions	3,288,498	29,681	2,014	23,991	6,540	850,545
Change in net assets	3,675,763	30,222	1,311	21,312	8,454	1,538,540
Net assets — July 1 as restated	45,098,073	357,255	24,651	261,975	64,326	14,256,845
Net assets — June 30	$ 48,773,836	$ 387,477	$ 25,962	$ 283,287	$ 72,780	$ 15,795,385

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
$ 167,468	$ —	$ 26,432	$ 678,769	$ 77,791	$ 1,207	$ 736	$ 1,729,259
264,816	46,889	—	—	—	—	—	1,484,348
—	—	19,224	—	—	—	—	36,312
432,284	46,889	45,656	678,769	77,791	1,207	736	3,249,919
671,144	91,835	43,876	15,461	45,878	67	5,266	8,687,069
(3,953)	(826)	(224)	(355)	(234)	(1)	(26)	(316,507)
667,191	91,009	43,652	15,106	45,644	66	5,240	8,370,562
—	—	—	—	—	—	—	4,343
—	—	—	—	—	—	—	3,287
—	—	—	—	—	—	—	7,630
1,099,475	137,898	89,308	693,875	123,435	1,273	5,976	11,628,111
183,533	31,379	42,040	—	88,007	1,283	1,490	4,415,805
—	—	235	577,412	—	—	—	577,647
—	—	—	—	—	—	—	116,688
2,466	466	605	329	747	134	15	21,268
—	—	—	—	1	—	—	3
185,999	31,845	42,880	577,741	88,755	1,417	1,505	5,131,411
913,476	106,053	46,428	116,134	34,680	(144)	4,471	6,496,700
3,693,745	605,867	294,693	489,902	334,769	1,927	35,772	65,519,800
$ 4,607,221	$ 711,920	$ 341,121	$ 606,036	$ 369,449	$ 1,783	$ 40,243	$ 72,016,500

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, 2010 are presented below (dollars in thousands).

	N.C. Housing Finance Agency	
	Home Ownership	Rental
Condensed Statement of Net Assets		
Assets:		
Current assets	$ 436,656	$ 22,109
Noncurrent assets	1,293,777	16,823
Total assets	1,730,433	38,932
Liabilities:		
Current liabilities	213,704	809
Noncurrent liabilities	1,279,709	11,170
Total liabilities	1,493,413	11,979
Net assets:		
Restricted	237,020	26,953
Total net assets	$ 237,020	$ 26,953
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds)	$ 87,800	$ 3,583
Operating expenses	(76,854)	(2,749)
Operating income	10,946	834
Transfers in	18,193	—
Transfers out	—	(25,154)
Change in net assets	29,139	(24,320)
Net assets — July 1	207,881	51,273
Net assets — June 30	$ 237,020	$ 26,953
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 163,813	$ 4,575
Noncapital financing activities	(102,672)	(28,049)
Investing activities	(111,885)	13,006
Net increase (decrease)	(50,744)	(10,468)
Cash and cash equivalents at July 1	195,755	31,026
Cash and cash equivalents at June 30	$ 145,011	$ 20,558

NOTE 18: PLEDGED REVENUES

Primary Government

Governmental Activities

Grant Anticipation Revenue Vehicle Bonds

The State has pledged future federal transportation revenues to repay $434.825 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2010. These bonds were issued in October 2007 and August 2009. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds are expected to require less than 9% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds may not exceed 15% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is $549.331 million, payable through 2021. For the current fiscal year, principal and interest paid and total federal transportation revenues were $67.167 million and $823.45 million, respectively.

Business-type Activities

Triangle Expressway System Revenue Bonds

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. 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).

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. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of state annual appropriations, federal interest subsidy payments, and investment income. 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.

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. The total principal and interest remaining to be paid on the bonds is $1.485 billion, payable through 2039 (final maturity date). For the current fiscal year, interest paid, available revenues (federal interest subsidy and investment revenues), and state appropriations (transfers in) were $15.052 million, $11.419 million, and $25 million, respectively. The first principal payment is due in 2017.

Employer Unemployment Tax Contributions

The State has pledged future unemployment tax contributions from employers to repay $2.15 billion in repayable advances from the Federal Unemployment Account. The debt is currently interest free through December 31, 2010. Proceeds from the advances were used to pay unemployment benefits because of an operating deficit in the State's Unemployment Compensation Fund.

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

Total revenue collected from unemployment tax contributions for the year was $976.839 million. Employer tax contributions were used to pay down the principal on the repayable advances in the amount of $873.545 million.

NOTES TO THE FINANCIAL STATEMENTS

Component Units

University of North Carolina System

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

		Future Revenues Pledged		Current Year			
Purpose	Revenue Source	Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments	Final Maturity Date	Bonds Payable as of 6/30/2010
Revenue Bonds		(1)					
Housing and Dining	Housing/Dining Revenues	$ 81,043	1.78% - 74.00%	$ 57,034	$ 7,660	2034	$ 59,837
Utilities	Utilities Revenues	86,518	11.00% - 19.00%	43,888	4,270	2024	61,988
Health Care Facilities	Patient Service Revenues	148,934	20.00% - 100.00%	39,651	12,412	2033	103,965
Other	Various	23,266	5.00% - 86.00%	12,190	4,986	2033	18,228
Total		$ 339,761		$ 152,763	$ 29,328		$ 244,018
Certificates of Participation							
Student Housing System	Housing Revenues	$ 37,642	79.00% - 87.00%	$ 1,756	$ 1,491	2036	$ 22,050
Banner System	Tuition/Administative Fees	3,168	62.00%	1,287	793	2014	2,870
Total		$ 40,810		$ 3,043	$ 2,284		$ 24,920
Note Payable							
Student Housing System	Housing Revenues/ Federal interest subsidy	$ 32,462	40.83%	$ 22	$ 64	2014	$ 31,000
Total		$ 32,462		$ 22	$ 64		$ 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 $1.35 billion in mortgage loans receivable, $142.62 million in reserves, and $1.85 million in program funds to repay $1.47 billion single family and multiple family bonds payable at June 30, 2010. Proceeds from the bonds issued were utilized to finance housing opportunities throughout North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest to pay the principal and interest debt service on the bonds. The total principal and interest remaining to be paid on bonds is $2.472 billion. For the current fiscal year, principal and interest paid and net available revenue on mortgage loans receivable were $112.774 million and $83.967 million respectively.

State Education Assistance Authority

The State Education Assistance Authority has collateralized $4.44 billion in student loans receivable and $65.88 million in reserves to repay $4.498 billion of bonds, notes payable and short term debt at June 30, 2010. These tax exempt, tax guaranteed student loan revenue bonds, taxable guaranteed student loan revenue private placement bonds, tax exempt guaranteed student loan revenue and refunding bonds, Conduit Funding Notes and Plan Participation Financing with the Department of Education were issued between fiscal years 2001 to 2005, 2007 and 2008. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through 2037 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 $536.735 million and $373.981 million respectively. The total principal and interest remaining to be paid on the bonds, notes payable and short term debt is $5.309 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, 2010 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	$ 1,161	$ 1,733,171	$ 198,155	$ 8,214	$ 47,631	$ 121,484	$ 177,686	$ 2,287,502
Investments	638,322	876,128	54,666	—	—	—	136,786	1,705,902
Receivables, net	2	817,131	74,581	24,064	93,433	65,560	12,725	1,087,496
Due from component units	—	5,922	3,895	—	1,740	—	1,185	12,742
Due from primary government	—	1,978	—	53,040	26,900	—	—	81,918
Inventories	—	76,999	17,584	—	—	—	745	95,328
Prepaid items	80	40,294	2,476	—	8	—	1,781	44,639
Notes receivable, net	—	231,790	680	1,441,958	4,510,282	—	12,096	6,196,806
Investment in joint venture	—	9,692	—	—	—	—	—	9,692
Deferred charges	—	18,627	—	15,020	18,099	—	912	52,658
Restricted/designated cash							—	
and cash equiv.	—	1,352,349	84,931	281,133	313,056	—	56,690	2,088,159
Restricted investments	—	3,208,304	123,283	222,770	669,359	—	1,777	4,225,493
Restricted due from primary							—	
government	—	11,882	42,292	—	—	—	—	54,174
Restricted due from component units	—	359	2,335	—	—	—	—	2,694
Deferred outflow of resources	—	50,801	—	6,698	—	—	293	57,792
Capital assets-nondepreciable	928	1,458,575	268,590	754	—	—	284,354	2,013,201
Capital assets-depreciable, net	3,095	8,253,333	1,903,433	2,220	6,417	81	376,526	10,545,105
Total Assets	643,588	18,147,335	2,776,901	2,055,871	5,686,925	187,125	1,063,556	30,561,301
Liabilities								
Accounts payable and								
accrued liabilities	67,866	620,658	56,115	2,376	18,017	25,214	26,369	816,615
Medical claims payable	—	—	—	—	—	253,329	—	253,329
Interest payable	—	22,500	23	42,217	5,956	—	775	71,471
Short-term debt	—	59,784	—	—	823,685	—	—	883,469
Due to component units	15,436	—	—	—	—	—	—	15,436
Due to primary government	1,228	2,548	38	—	—	4	17,865	21,683
Unearned revenue	—	157,061	20,634	9,133	—	9,276	1,886	197,990
Advance from primary government	—	—	—	—	—	—	21,742	21,742
Deposits payable	—	9,065	—	3,465	—	—	25	12,555
Funds held for others	—	781,538	9,237	—	580,211	—	90	1,371,076
Hedging derivatives liability	—	50,801	—	6,698	—	—	293	57,792
Long-term liabilities:							—	
Due within one year	18	242,037	10,059	172,436	758,366	2,637	2,449	1,188,002
Due in more than one year	—	3,894,079	97,864	1,299,835	2,916,851	4,326	109,187	8,322,142
Total Liabilities	84,548	5,840,071	193,970	1,536,160	5,103,086	294,786	180,681	13,233,302
Net Assets								
Invested in capital assets, net								
of related debt	4,023	6,263,083	2,131,155	2,974	6,417	81	529,081	8,936,814
Restricted for:								
Nonexpendable:								
Higher education	—	1,584,347	136,199	—	—	—	—	1,720,546
Expendable:								
Higher education	—	1,867,303	175,927	—	501,635	—	—	2,544,865
Health and human services	—	—	—	—	—	—	1,782	1,782
Economic development	—	—	—	507,456	—	—	271,049	778,505
Unrestricted	555,017	2,592,531	139,650	9,281	75,787	(107,742)	80,963	3,345,487
Total Net Assets	$ 559,040	$ 12,307,264	$ 2,582,931	$ 519,711	$ 583,839	$ (107,661)	$ 882,875	$ 17,327,999

NOTES TO THE FINANCIAL STATEMENTS

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	$ 67,795	$ 8,538,407	$ 2,023,795	$ 358,692	$ 412,604	$ 2,546,554	$ 288,777	$ 14,236,624
Program revenues:								
Charges for services	5	5,124,400	316,177	328,211	114,460	2,470,377	66,653	8,420,283
Operating grants and contributions:								
State aid - program	—	137,816	—	36,025	209,247	—	149,051	532,139
Other operating grants and contributions	66,763	1,037,925	803,447	—	72,913	62,303	14,629	2,057,980
Capital grants and contributions:								
State capital aid	—	284,294	65,518	—	—	—	19,645	369,457
Other capital grants and contributions	—	71,778	119,813	—	—	—	63,553	255,144
Net program (expense) revenue	(1,027)	(1,882,194)	(718,840)	5,544	(15,984)	(13,874)	24,754	(2,601,621)
Non-tax general revenues:								
State aid - general	73,179	2,600,397	844,404	11,028	—	5,000	33,714	3,567,722
Miscellaneous	—	404	103	—	—	—	1,645	2,152
Total non-tax general revenues	73,179	2,600,801	844,507	11,028	—	5,000	35,359	3,569,874
Contributions to endowments	—	60,943	7,337	—	—	—	—	68,280
Change in net assets	72,152	779,550	133,004	16,572	(15,984)	(8,874)	60,113	1,036,533
Net assets — July 1, as restated	486,888	11,527,714	2,449,927	503,139	599,823	(98,787)	822,762	16,291,466
Net assets — June 30	$ 559,040	$ 12,307,264	$ 2,582,931	$ 519,711	$ 583,839	$ (107,661)	$ 882,875	$ 17,327,999

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	$ (15,436)	$ 6,281	$ 6,230	$ —	$ 1,740	$ —	$ 1,185	$ —
Grant revenue (expense)	(9,323)	1,805	5,528	—	1,740	—	250	—
UNC System-grant revenue (expense)	—	(55,016)	—	—	55,016	—	—	—

Intra-Entity Balances — Between Primary Government and Component Units

	Due From/Restricted Due From Component Units				Due From/Restricted Due From Primary Government				
	General Fund	Other Governmental Funds	Other Funds	Total	University of North Carolina System	Community Colleges	NC Housing Finance Agency	State Education Assistance Authority	Total
Due To Component Units:									
General Fund	$ —	$ —	$ —	$ —	$ 1,978	$ —	$ 53,040	$ —	$ 55,018
Other Governmental Funds	—	—	—	—	11,882	42,292	—	26,900	81,074
Due To Primary Government:									
The Golden LEAF, Inc	143	1,085	—	1,228	—	—	—	—	—
University of North Carolina System	—	1,724	824	2,548	—	—	—	—	—
Community Colleges	—	1	37	38	—	—	—	—	—
State Health Plan	—	—	4	4	—	—	—	—	—
Other Component Units	1,215	16,620	30	17,865	—	—	—	—	—
Total	$ 1,358	$ 19,430	$ 895	$ 21,683	$ 13,860	$ 42,292	$ 53,040	$ 26,900	$ 136,092

NOTE 20: RELATED ORGANIZATIONS

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate private non-profit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a Board of Directors ranging from 13 to 20 members. Six of the members are appointed by the Governor. Another six members serve ex officio as follows: four are chancellors of universities in the University of North Carolina System, a component unit of the State; one is the president of MCNC; and one is designated by the Board of Trustees of Duke University. The remaining up to eight members are elected by the majority vote of persons then constituting the MCNC Board. Any appointed director may be removed from office by the Governor for cause. Any elected director may be removed by the Board of Directors at will.

Centennial Authority

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

The Authority entered into a ground lease with the State of North Carolina to lease land for the RBC Center for a period of 99 years at an annual rent of $1. NCSU entered into a use agreement with the Authority. Both parties agreed that NCSU shall be the primary and preferred user of all areas of the RBC Center. NCSU is required to pay the greater of 10% of gross ticket revenues or $47 thousand for each men's and $21 thousand for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the RBC Center and the anticipated attendance. In fiscal year 2008, the University entered a capital improvement plan agreement with the Authority to pay $6 million in quarterly installments over the next 15 years.

North Carolina Capital Facilities Finance Agency

The North Carolina Capital Facilities Finance Agency provides the benefits of tax-exempt financing to non-profit institutions providing elementary and secondary education, private institutions of higher education, and various other entities for special purpose projects serving a public interest (see Note 22). The agency is governed by a seven member board comprised of two members appointed by the General Assembly, three members appointed by the Governor, and the State Treasurer and the State Auditor, both of whom serve ex officio.

NOTE 21: RELATED PARTY TRANSACTIONS

Primary Government

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

General Statute 135-96 established the Supplemental Retirement Board of Trustees (Board) to administer both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan. The Plan document for each Plan designates that the general administration and responsibility for carrying out the provisions of the Plan, as directed by the Board, shall be placed with the Retirement Systems Division of the Department of State Treasurer as Primary Administrator.

The Board and Primary Administrator have entered into an agreement with Prudential Retirement Services to perform recordkeeping, administration and investment management services for both Plans. Prudential Retirement Services is a subsidiary of The Prudential Insurance Company of America (Prudential). Each Plan also has an investment management agreement with Prudential, Great-West Life & Annuity Insurance Company (Great-West), and Payden & Rygel. Prudential Retirement Insurance and Annuity Company is the owner of the Pooled Separate Account SA-NC. Synthetic GIC (Guaranteed Investment Contract) contracts are held with Prudential and Great-West. Prudential also provides the North Carolina Stable Value Fund as an investment option for participants in each Plan.

The Supplemental Retirement Income Plan of North Carolina (401(k) Plan) recognized approximately $6.4 million in expenses to related parties. The expenses relate to loan initiation fees and investment management fees. Certain other administrative expenses of the 401(k) Plan are paid by Prudential Retirement Services. In addition, the 401(k) Plan has a securities lending contract with State Street Bank and Trust Company (State Street), a custodian of the 401(k) Plan assets, and receives securities lending income related to this arrangement. The pooled fund held as collateral under securities lending transactions is a State Street fund.

Component Units

University of North Carolina System and Community College Foundations

The University of North Carolina (UNC) System and community colleges have separately incorporated not-for-profit foundations that are associated with constituent institutions of the UNC System or individual colleges. These organizations serve as a fundraising arm of the respective institutions through which individuals, corporations, and other organizations support institution programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the institution's overall academic environment. These affiliated organizations are not included as component units since the economic resources received or held by an individual organization are not significant to the primary government. Therefore, the financial statements of the UNC System and community colleges do not include the assets, liabilities, net 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, 2010, this support approximated $43.51 million for the UNC System and $843 thousand for community colleges.

University of North Carolina System

North Carolina Agricultural and Technical State University (NCA&T) and the University of North Carolina at Greensboro (UNCG) have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc.(Research Park). The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization and discovery while encouraging and promoting regional economic development.

For the fiscal year ended June 30, 2010, NCA&T made payments and incurred additional liabilities totaling $10.18 million to the Research Park for the construction of a new research and classroom facility on the south campus to be known as the Joint School of Nanoscience and Nanoengineering. In addition, NCA&T has established a commitment to Gateway University Research Park, Inc. in the amount of $47.28 million for the payment of future construction costs incurred by the Research Park for the building of the Joint School of Nanoscience and Nanoengineering.

For the fiscal year ended June 30, 2010, UNCG made payments totaling $760 thousand to the Research Park for operation and maintenance of UNCG facilities at the Research Park, operating funding for the Research Park, rental expense, renovations, and facility use fees.

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 2042, the outstanding principal of such bonds and notes as of June 30, 2010, was \$6.99 billion with interest rates varying from 0.2% to 8%.

The North Carolina Capital Facilities Finance Agency (Agency) is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industry (in connection with manufacturing) where there is a favorable impact on employment or pollution control commensurate with the size and cost of the facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose, and beginning in 2009, authority to issue Recovery Zone Facility Bonds (as authorized by the federal American Recovery and Reinvestment Act of 2009 and by amended NC bond statutes) for projects that promote economic development and increased employment. 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, 2010, was \$2.9 billion with fixed interest rates varying from 2.5% to 7.1% and variable interest rates which can be reset weekly.

B. Litigation

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

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

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

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

Southeast Compact Commission — Disposal of Low-level Radioactive Waste. North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact (Compact) to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997, the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact subsequently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of $80 million of Compact payments expended on the permitting of the site, plus $10 million of future lost income, interest and attorney fees. The Supreme Court denied this motion in August 2001. On August 5, 2002 the Compact, with the addition of four member states as plaintiffs, filed a new motion requesting the United States Supreme Court to accept the claim under its original jurisdiction. On June 16, 2003, the Court accepted jurisdiction of the case and the State filed an answer and motion to dismiss on August 21, 2003. On November 17, 2003, the U.S. Supreme Court appointed a Special Master with authority to receive evidence and make recommended rulings on the issues presented by the case. On April 2, 2009, the Special Master filed his "Preliminary Report" and his "Second Report" recommending that the Court dismiss the claims seeking enforcement of the monetary sanction imposed against North Carolina by the Compact Commission as well as the entry of partial summary judgment finding that North Carolina did not breach the Compact when it withdrew. Briefing by the parties on Exceptions to the Reports of the Special Master concluded on September 9, 2009. The United States Supreme Court heard oral arguments on January 11, 2010, and issued an opinion on June 1, 2010, finding it in favor of North Carolina on all issues before the Court. Plaintiffs have agreed to dismiss the case with prejudice.

***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.

***Goldston v. State of North Carolina* – Highway Trust Fund Transfers.** On November 14, 2002, a lawsuit was filed in Wake County Superior Court demanding that $80 million transferred by the Governor from the Highway Trust Fund to the General Fund for purposes of balancing the state budget be returned to the Highway Trust Fund. The suit further alleges that actions of the General Assembly regarding the transfer of funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes. Summary Judgment was granted in favor of the State on all issues and Plaintiff has filed a notice of appeal. On September 20, 2005, the North Carolina Court of Appeals upheld the trial court's order. The plaintiff filed a petition for discretionary review with the North Carolina Supreme Court, and the Court agreed on March 2, 2006 to review a portion of the Court of Appeals' decision and oral argument was heard on October 16, 2006. In an opinion filed December 15, 2006, the Supreme Court reversed the Court of Appeals, concluding that plaintiffs have standing to pursue their claims. On remand to Wake County Superior Court, Judge John ruled in favor of the State on both the standing argument and the merits of the case. Plaintiff's appeal was argued in the Court of Appeals on January 28, 2009. In an opinion filed September 15, 2009 the Court of Appeals held that although the General Assembly had the authority to transfer $125 million from the Highway Trust Fund to the General Fund, the Governor exceeded his constitutional authority in transferring $80 million from the Highway Trust Fund to the General Fund. On October 8, 2010, the Court announced that the members were equally divided. As a matter of law the decision of the Court of Appeals is affirmed but has no precedential value.

***State of North Carolina v. Philip Morris, Inc., et al., 98 CVS 14377* — Master Settlement Agreement (MSA) Payments.** On April 20, 2006, the State of North Carolina filed a Motion for Declaratory Order in the North Carolina Business Court against defendants Philip Morris, Inc., R. J. Reynolds Tobacco Company, and Lorillard Tobacco Company. The Motion is seeking a declaration that (1) in 2003, North Carolina continuously had a Qualifying Statute in full force and effect and "diligently enforced" its provisions throughout that year in accordance with the MSA; (2) North Carolina is not subject to a Non-Participating Manufacturers' Adjustment for 2003; and (3) defendants are obligated not to withhold or pay into a disputed payments account any payments due, or seek any offset of any payments made, on the basis that North Carolina is subject to a Non-Participating Manufacturers' Adjustment for 2003. If the State is unable to ultimately prevail in the diligent enforcement litigation, the State may be unable to recover a portion of this year's MSA payment. On December 4, 2006, Judge Tennille allowed the defendant's motion to compel arbitration of these issues. The Court of Appeals upheld the Order and on March 19, 2009, the State's Petition to the North Carolina Supreme Court was denied. The State is therefore now participating in a national arbitration process with the tobacco companies and all other MSA states.

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

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

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2010, the State is unable to estimate what liabilities may result from such audits.

D. Highway Construction

The State may be liable for approximately $138.5 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional $58.17 million in contested rights-of-way acquisition costs to property owners in condemnation proceedings. These costs have not been included in project-to-date costs. Also, the State is contingently liable for outstanding contractors' claims in the amount of $54.79 million.

E. USDA-Donated Commodities

The State has custodial responsibility for $3.8 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, 2010, the State had commitments of $2.04 billion for construction of highway infrastructure. Of this amount, $1.46 billion relates to the Highway Fund, $416.56 million relates to the NC Turnpike Authority, and $171.61 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled $660.73 million (including $459.25 million for the Department of Environment and Natural Resources and $76.15 million for the Department of Correction).

At June 30, 2010, the University of North Carolina System (component unit) had outstanding construction commitments of $632.63 million (including $149.1 million for University of

North Carolina at Chapel Hill, $113.77 million for University of North Carolina at Charlotte , $68.43 million for North Carolina State University, $55.72 million for North Carolina Agricultural and Technical State University, $47.77 million for UNC Health Care System, and $44.23 million for East Carolina University).

At June 30, 2010, community colleges (component units) had outstanding construction commitments of $76.84 million (including $17.29 million for Guilford Technical Community College, $14.28 million for Sandhills Community College, $13.54 million for Wake Technical Community College, $5.59 million for Central Piedmont Community College, $3.95 million for Johnston Community College and $3.93 million for Mitchell Community College).

The State Treasurer has entered into contracts with external fund managers of the Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection 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, 2010, the State Treasurer has $1.8 billion committed for Real Estate Investment portfolio which includes 83.2 million euro and 23.3 million pounds sterling converted to U.S. dollars equivalent. There were commitments of $2.8 billion for Alternative Investment portfolio which include 233 million euro converted to U.S. dollars equivalent. There were also commitments in the Inflation Protection and Credit Investment portfolios in the amount of $249.6 million and $228.9 million, respectively.

The UNC Investment Fund, LLC (System 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, 2010, the System Fund had approximately $509.9 million unfunded committed capital.

At June 30, 2010, The Golden LEAF (Long-term Economic Advancement Foundation), Inc. (component unit) had outstanding commitments of $49.13 million to invest in several private equity and other limited partnerships.

G. Tobacco Settlement

In 1998, North Carolina, along with 45 other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will actually receive from this settlement remains uncertain, but projections are that the State will receive approximately $4.6 billion through the year 2025. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue for the tobacco settlement based on the underlying domestic shipment of cigarettes. This accrual estimate is based on the projected payment schedule in the MSA adjusted for historical payment trends.

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

In 2000, the State enacted legislation that established the Health and Wellness Trust Fund and the Tobacco Trust Fund and created commissions charged with managing these funds. Each fund will receive 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 as special revenue funds. In fiscal year 2008-2009, Session Law 2008-107, Section 2.2.(e) and Section 2.2.(f) directed the Tobacco

Trust Fund and the Health and Wellness Trust Fund to transfer $5 million each to the General Fund in order to support appropriations.

H. Other Contingencies

As of June 30, 2010, the North Carolina Global TransPark Authority (Authority), a component unit of the State, had a loan outstanding including accrued interest payable totaling $38.361 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2011. As of October 15, 2010, 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) may be required to be paid back. As of June 30, 2010, the Authority has an amortized commitment of approximately $17.4 million from the FAA.

NOTE 23: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2010, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51 provides needed guidance regarding how to identify, account for, and report intangible assets. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This pronouncement provides additional guidance that specifically addresses the unique nature of intangible assets, including 1) establishing a specified conditions approach to recognizing intangible assets that are internally generated, 2) providing guidance on recognizing internally generated computer software, and 3) establishing specific guidance for the amortization of intangible assets. Intangible assets with indefinite useful lives should not be amortized. Consequently, the beginning accumulated amortization balance related to permanent easements of the N.C. Highway System was removed (see Note 24).

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This pronouncement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Specific criteria are provided for determining whether a derivative instrument results in an effective hedge. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. Beginning fund equity was restated for derivatives that were used for investment purposes and for derivatives that were ineffective as hedges at the end of the current and previous reporting periods (see Note 24). For hedging derivative instruments, this pronouncement has essentially incorporated the disclosure requirements of Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. The disclosures for investment derivative instruments are similar to the disclosures of other investments.

NOTE 24: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the "GASB 51 and 53 Implementation" column are due to the State's adoption of new GASB pronouncements as discussed in Note 23. The adjustments in the "Securities Lending Losses" column are due to unrealized losses on the investment of cash collateral received for securities lent that were previously not reported by the Investment Pool (see Note 3A). The adjustments in the "Fund Reclassifications" column result primarily from reclassifications of the following: 1) an other governmental fund to the General Fund due to a statutory change, 2) the N.C. Turnpike Authority from a component unit to an enterprise fund due to a statutory change, and 3) the State Health Plan from an other employee benefit trust fund to a component unit due to a management reevaluation of fund type. The amounts in the "Other Adjustments" column include correction of errors related to prior periods.

	July 1, 2009 Fund Equity as Previously Reported	GASB 51 and 53 Implementation	Securities Lending Losses	Fund Reclassifications	Other Adjustments	July 1, 2009 Fund Equity as Restated
Primary Government						
Major Governmental Funds:						
General Fund	$ (775,864)	$ —	$ (66,014)	$ 64,415	$ (110)	$ (777,573)
Highway Fund	1,021,232	—	(19,974)	—	23,383	1,024,641
Highway Trust Fund	(169,629)	—	(993)	—	(23,383)	(194,005)
Other Governmental Funds:		—				
Special Revenue Funds	2,451,310	—	(27,981)	(65,679)	(1,238)	2,356,412
Capital Projects Funds	282,774	—	—	—	(1,532)	281,242
Permanent Funds	79,417	—	(1,518)	—	—	77,899
Total Governmental Funds	2,889,240	—	(116,480)	(1,264)	(2,880)	2,768,616
Internal Service Funds	256,627	—	(1,060)	—	17,221	272,788
Government-wide adjustments:						
Capital assets	34,173,884	2,000,720	—	(20)	(265,831)	35,908,753
Unavailable deferred revenues	249,189	—	—	—	(23,991)	225,198
Long-term liabilities	(8,685,353)	—	—	—	15,433	(8,669,920)
Accrued interest payable	(81,113)	—	—	—	(508)	(81,621)
Investment derivatives	—	(39,875)	—	—	—	(39,875)
Pension assets	3,418	—	—	—	—	3,418
Total Government-wide adjustments	25,660,025	1,960,845	—	(20)	(274,897)	27,345,953
Total Governmental Activities	28,805,892	1,960,845	(117,540)	(1,284)	(260,556)	30,387,357
Business-type Activities - Enterprise Funds:						
Unemployment Compensation Fund	(298,761)	—	(520)	—	—	(299,281)
EPA Revolving Loan Fund	1,001,286	—	(6,258)	—	—	995,028
N.C. State Lottery Fund	—	—	(1,238)	—	1,238	—
N.C. Turnpike Authority	—	—	—	50,751	(1)	50,750
Other enterprise funds	129,080	—	(1,888)	1,284	974	129,450
Total Business-type Activities - Enterprise Funds	831,605	—	(9,904)	52,035	2,211	875,947
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	65,900,220	—	(455,426)	98,787	(23,781)	65,519,800
Investment Trust Fund	593,149	—	(10,393)	—	—	582,756
Private Purpose Trust Funds	1,042,311	—	(13)	—	—	1,042,298
Total Fiduciary Funds	67,535,680	—	(465,832)	98,787	(23,781)	67,144,854
Total Primary Government	$ 97,173,177	$ 1,960,845	$ (593,276)	$ 149,538	$ (282,126)	$ 98,408,158
Component Units						
The Golden LEAF, Inc.	$ 486,888	$ —	$ —	$ —	$ —	$ 486,888
University of North Carolina System	11,531,575	—	—	—	(3,861)	11,527,714
Community Colleges	2,449,079	—	—	—	848	2,449,927
NC Housing Finance Agency	503,139	—	—	—	—	503,139
State Education Assistance Authority	599,823	—	—	—	—	599,823
State Health Plan	—	—	—	(98,787)	—	(98,787)
Other component units	846,852	—	—	(50,751)	26,661	822,762
Total Component Units	$ 16,417,356	$ —	$ —	$ (149,538)	$ 23,648	$ 16,291,466

NOTE 25: SUBSEQUENT EVENTS

Primary Government

General Obligation Refunding Bonds

On August 31, 2010, the State issued $472.6 million in General Obligation Refunding Bonds, Series 2010B with an average coupon interest rate of 5% and a true interest cost of 1.72%. The bonds are dated August 31, 2010, and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1 commencing December 1, 2010. The bonds will mature annually from June 1, 2011 to 2019 inclusive and are not subject to redemption prior to maturity. The proceeds of the Series 2010B Bonds were used to refund $499.87 million of General Obligation Refunding Bonds Series 2002B through 2002F, to provide for termination payments on two interest rate swaps and three standby bond purchase agreements associated with the Series 2002B through 2002F bonds and to pay certain costs incurred in connection with the execution and delivery of the bonds. The refunding was undertaken to reduce total debt service payments by $9.19 million over the next 9 years and resulted in an economic gain of $6.2 million.

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

North Carolina Turnpike Authority (NCTA)

On October 26, 2010 the NCTA issued $233.92 million in taxable State Appropriation Revenue Bonds, Series 2010A. These bonds are dated October 26, 2010, and will bear interest from that date.

The Authority has elected to treat the Series 2010A 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 the Series 2010A bonds for an effective yield of 3.45%. Interest on the bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2011. The bonds were issued to provide funds for the Monroe Connector System. Included in this sale were serial and term bonds with the following terms:

- Serial bonds of $35 million, with interest rates ranging from 4.25% to 4.75%, maturing January 1, 2022 to January 1, 2025;
- Term bonds of $61.92 million, at an interest rate of 5.32%, due January 1, 2031;
- Term bonds of $137 million, at an interest rate of 5.42%, due January 1, 2041.

Component Units

State Education Assistance Authority - Federal Loan Participation Purchase Program

During fiscal year 2010, loans were financed through the Federal Loan Participation Purchase Program (Federal LPP) of the U.S. Department of Education creating a short-term liability for the State Education Assistance Authority (the Authority). Under the terms of the Federal LPP authorized by the "Ensuring Continued Access to Student Loans Act of 2008", Pub. Law 110-227, as amended by Pub. Law 110-315 and Pub. Law 110-350 (ECASLA), all 2009-2010 participations were to be terminated by September 30, 2010. As of June 30, 2010, the Authority's short-term obligation under the Federal LPP was $823 million (see Note 6). To effect a termination of its participation in the Federal LPP, the Authority sold the participated student loans to the U.S. Department of Education, as permitted under ECASLA, on September 13, 2010.

The Authority is currently in the process of considering all financing and refinancing options available and has authorized the issuance of approximately $915 million in Student Loan Backed Notes for the purposes of refunding and defeasing certain prior obligations. The Authority expects to close one or more transactions to accomplish this purpose during the coming year.

Univeristy of North Carolina Health Care System Rex Healthcare – Revenue Bonds

On October 26, 2010, Rex Healthcare issued $123 million in tax-exempt Revenue Bonds, Series 2010A. These bonds are dated October 26, 2010, 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, 2011. The bonds will mature annually from July 1, 2011 to July 1, 2030 and were issued at coupon rates ranging from 2% to 5%. The bonds were issued to provide funds for refunding certain bonds previously issued for the benefit of Rex Hospital, to pay and reimburse Rex Hospital for paying the costs of constructing a new central energy plant on the main campus of Rex Hospital and routine capital expenditures for Rex Hospital, which is referred to as the Project, to fund a portion of the interest accruing on the 2010A Bonds during the acquisition and construction of the Project and to pay certain expenses of issuing the 2010A Bonds.

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REQUIRED SUPPLEMENTARY INFORMATION

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

June 30, 2010

(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'	12-31-09	$ 55,818,099	$ 58,178,272	$ 2,360,173	95.9%	$ 13,253,030	17.8%
	12-31-08	55,127,658	55,518,745	391,087	99.3%	13,267,554	3.0%
	12-31-07	55,283,120	52,815,089	(2,468,031)	104.7%	12,701,017	(19.4)%
	12-31-06	52,420,808	49,391,907	(3,028,901)	106.1%	11,711,386	(25.9)%
	12-31-05	49,670,182	46,624,668	(3,045,514)	106.5%	10,990,239	(27.7)%
	12-31-04	47,383,509	43,827,854	(3,555,655)	108.1%	10,366,137	(34.3)%
Consolidated Judicial	12-31-09	$ 439,987	$ 474,949	$ 34,962	92.6%	$ 66,171	52.8%
	12-31-08	433,553	441,933	8,380	98.1%	65,083	12.9%
	12-31-07	430,356	418,137	(12,219)	102.9%	61,338	(19.9)%
	12-31-06	406,015	378,490	(27,525)	107.3%	53,348	(51.6)%
	12-31-05	382,501	355,498	(27,003)	107.6%	51,018	(52.9)%
	12-31-04	363,110	334,272	(28,838)	108.6%	49,368	(58.4)%
Legislative	12-31-09	$ 29,792	$ 23,511	$ (6,281)	126.7%	$ 3,622	(173.4)%
	12-31-08	30,097	23,092	(7,005)	130.3%	3,670	(190.9)%
	12-31-07	30,698	22,883	(7,815)	134.2%	3,680	(212.4)%
	12-31-06	29,589	21,742	(7,847)	136.1%	3,695	(212.4)%
	12-31-05	28,381	21,524	(6,857)	131.9%	3,681	(186.3)%
	12-31-04	27,478	20,696	(6,782)	132.8%	3,658	(185.4)%
Firemen's and Rescue Squad Workers'	6-30-09	$ 315,697	$ 351,324	$ 35,627	89.9%	N/A	N/A
	6-30-08	316,973	339,022	22,049	93.5%	N/A	N/A
	6-30-07	305,869	322,453	16,584	94.9%	N/A	N/A
	6-30-06	287,933	304,339	16,406	94.6%	N/A	N/A
	6-30-05	274,265	285,356	11,091	96.1%	N/A	N/A
	6-30-04	261,148	273,826	12,678	95.4%	N/A	N/A
North Carolina National Guard	12-31-09	$ 81,371	$ 121,855	$ 40,484	66.8%	N/A	N/A
	12-31-08	78,067	112,747	34,680	69.2%	N/A	N/A
	12-31-07	74,794	109,431	34,637	68.3%	N/A	N/A
	12-31-06	66,898	105,017	38,119	63.7%	N/A	N/A
	12-31-05	59,204	81,803	22,599	72.4%	N/A	N/A
	12-31-04	54,069	93,388	39,319	57.9%	N/A	N/A
Registers of Deeds'	12-31-09	38,913	21,840	(17,073)	178.2%	6,092	(280.3)%
	12-31-08	37,212	18,365	(18,847)	202.6%	6,024	(312.9)%
	12-31-07	35,453	17,830	(17,623)	198.8%	5,869	(300.3)%
	12-31-06	32,371	17,375	(14,996)	186.3%	5,558	(269.8)%
	12-31-05	28,242	11,788	(16,454)	239.6%	5,367	(306.6)%
	12-31-04	24,262	12,240	(12,022)	198.2%	5,549	(216.6)%
Local Governmental Employees'	12-31-09	$ 17,723,253	$ 17,804,791	$ 81,538	99.5%	$ 5,184,128	1.6%
	12-31-08	17,100,739	17,173,975	73,236	99.6%	4,974,742	1.5%
	12-31-07	16,791,984	16,868,147	76,163	99.5%	4,750,682	1.6%
	12-31-06	15,564,789	15,643,377	78,588	99.5%	4,468,394	1.8%
	12-31-05	14,395,849	14,480,208	84,359	99.4%	4,241,334	2.0%
	12-31-04	13,377,297	13,466,189	88,892	99.3%	4,088,170	2.2%

NOTE 1- A negative UAAL denotes excess actuarial assets

N/A - Not applicable

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 140.

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

For the Six-Year Period 2005 to 2010 (July 1 to June 30)

(Expressed in Thousands)

Retirement System	*State Fiscal Year*	*Annual Required Contribution*	*Percentage Contributed*	
Teachers' and State Employees'	2010	$ 483,205	100%	
	2009	472,374	100%	
	2008	406,576	99%	Note 1
	2007	332,149	100%	Note 2
	2006	269,587	100%	
	2005	237,170	100%	
Consolidated Judicial	2010	$ 10,248	100%	
	2009	8,373	106%	
	2008	8,158	104%	Note 1
	2007	6,520	100%	Note 2
	2006	6,448	100%	Note 2
	2005	6,513	100%	
Legislative	2010	$ —	NR	
	2009	—	NR	
	2008	—	NR	Note 1
	2007	—	NR	
	2006	—	NR	
	2005	—	NR	
Firemen's and Rescue Squad Workers'	2010	$ 10,074	100%	
	2009	9,757	100%	
	2008	8,734	100%	
	2007	8,440	100%	
	2006	7,926	100%	
	2005	7,521	100%	
North Carolina National Guard	2010	$ 5,682	123%	
	2009	6,248	94%	
	2008	6,232	112%	
	2007	7,327	96%	
	2006	5,944	102%	
	2005	1,412	111%	
Registers of Deeds' Note 3	2010	$ —	NR	
	2009	—	NR	
	2008	—	NR	
	2007	—	NR	
	2006	—	NR	
	2005	29	10,458%	
Local Governmental Employees'	2010	$ 262,591	100%	
	2009	265,690	100%	
	2008	246,004	100%	
	2007	233,003	100%	
	2006	226,665	100%	
	2005	216,097	100%	

NR- No contribution was required or made.

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

Note 2- The State made minor additional contributions not related to the ARC disclosed in that year's CAFR.

Note 3 For Registers, significant fees and collections are contributed. They are not directly related to the ARC.

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 140.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2010

(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	12-31-09	$ 556,303	$ 33,321,784	$ 32,765,481	1.7%	$ 15,131,146	216.5%
	12-31-08	434,769	28,288,439	27,853,670	1.5%	15,295,560	182.1%
	12-31-07	296,500	28,890,120	28,593,620	1.0%	14,810,279	193.1%
Disability Income	12-31-09	$ 352,628	$ 492,731	$ 140,103	71.6%	$ 14,534,661	1.0%
	12-31-08	350,145	477,574	127,429	73.3%	14,493,066	0.9%
	12-31-07	326,674	474,614	147,940	68.8%	13,849,158	1.1%

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

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS

For the Fiscal Years Ended June 30, 2008-2010

(Expressed in Thousands)

		State Fiscal Year	Annual Required Contribution	Percentage Contributed
Retiree Health Benefit	(1)	2010	$ 3,018,969	27%
		2009	2,674,416	31%
		2008	2,714,184	22%
Disability Income		2010	$ 72,428	107%
		2009	78,314	102%
		2008	73,470	102%

(1) Beginning in the fiscal year ending June 30, 2009, total contributions as defined by the actuary are the total net retiree benefits paid by the State Health Plan plus employer contributions deposited to the Retiree Health Benefit Fund less payments from the Fund to the State Health Plan during the fiscal year.

For prior fiscal years, total contributions were only the employer contributions deposited to the Retiree Health Benefit Fund.

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, 2010
(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Individual income	$ 9,514,249	$ 9,514,249	$ 9,047,606	$ (466,643)
Corporate income	1,051,100	1,051,100	1,197,866	146,766
Sales and use	5,628,611	5,628,611	5,565,043	(63,568)
Franchise	622,000	622,000	724,451	102,451
Insurance	487,300	487,300	486,849	(451)
Beverage	287,900	287,900	282,317	(5,583)
Inheritance	113,100	113,100	71,906	(41,194)
Tobacco products	247,434	247,434	251,731	4,297
Other	103,500	103,500	117,270	13,770
Non-Tax:				
Fees, licenses and fines	247,831	247,831	217,012	(30,819)
Investment income	67,200	67,200	40,784	(26,416)
Disproportionate share receipts	125,000	125,000	124,995	(5)
Other	322,942	322,942	402,951	80,009
Transfers in	108,500	108,500	126,119	17,619
Tobacco settlement	—	73,179	73,179	—
Departmental:				
Federal funds	12,147,609	12,202,961	10,765,522	(1,437,439)
Local funds	700,659	720,427	691,014	(29,413)
Inter-agency grants and allocations	34,224	28,289	17,346	(10,943)
Intra-governmental transactions	2,857,997	4,309,775	4,272,152	(37,623)
Sales and services	107,661	106,870	94,297	(12,573)
Rental and lease of property	8,999	10,200	10,580	380
Fees, licenses and fines	418,014	482,146	484,067	1,921
Contributions, gifts and grants	484,035	1,466,520	1,449,042	(17,478)
Federal recovery funds	93,384	2,380,385	1,921,372	(459,013)
Miscellaneous	676,198	813,762	582,421	(231,341)
Total Revenues	36,455,447	41,521,181	39,017,892	(2,503,289)
Expenditures:				
Current:				
General government	922,827	905,681	749,597	156,084
Primary and secondary education	10,425,269	11,658,836	10,223,435	1,435,401
Higher education	4,048,436	4,152,510	3,935,547	216,963
Health and human services	16,723,327	19,672,917	18,988,173	684,744
Environment and natural resources	402,899	403,338	345,094	58,244
Economic development	180,417	377,338	243,353	133,985
Public safety, corrections, and regulation	2,444,085	2,660,413	2,352,871	307,542
Agriculture	90,425	136,462	126,627	9,835
Capital outlay	4,875	4,875	4,875	—
Debt service	1,404,462	1,911,889	1,859,116	52,773
Total Expenditures	36,647,022	41,884,259	38,828,688	3,055,571
Excess revenues over (under) expenditures	(191,575)	(363,078)	189,204	552,282
Total fund balance at July 1, 2009, as restated	630,285	630,285	630,285	—
Total fund balance at June 30, 2010	$ 438,710	$ 267,207	$ 819,489	$ 552,282

	Actual
Fund balance reserved:	
Statutory	$ 194,428
Non-reverting purposes	388,159
Fund balance unreserved	236,902
Total fund balance at June 30, 2010	$ 819,489

BUDGETARY REPORTING

A. General Fund Budgetary Process

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

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

On July 20, 2006, the General Assembly passed House Bill 914, the State Budget Act, to replace the Executive Budget Act. This legislation was effective July 1, 2007 and affected budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The legislation provided that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the 16 universities within the University of North Carolina System and the North Carolina School of Science and Mathematics to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All 16 universities and the North Carolina School of Science and Mathematics have applied for and received special responsibility status.

Generally, unexpended appropriations at the end of the fiscal year lapse and are reappropriated in the next fiscal year. However, in certain circumstances the OSBM will allow a department to carry forward appropriations for specifically identified expenditures that will be paid in the next fiscal year. This is accomplished by the department writing a check to itself and recording a budgetary expenditure. The check is deposited in the next fiscal year as a budgetary receipt.

A detailed listing of appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 116 West Jones Street, Raleigh, NC 27603-8005.

B. Special Fund Budgetary Process

The major special revenue funds, which are the Highway Fund and Highway Trust Fund, do not have annual appropriated budgets.

C. Reconciliation of Budget/GAAP Reporting Differences

The *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund*, presents comparisons of the legally adopted budget (which is more fully described in section A, above) with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

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

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

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

The following table presents a reconciliation of resulting entity, basis and timing differences in the fund balances (budgetary basis) at June 30, 2010 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	General Fund
Fund balance (budgetary basis), June 30, 2010	$ 819,489
Reconciling Adjustments:	
Entity Difference:	
Primary government:	
Other	903
Basis Differences:	
Accrued revenues:	
Taxes receivable	1,369,427
Accounts receivable	265,779
Federal funds, net	1,029,259
Other receivables	177,500
Less:	
Tax refunds payable	(1,402,587)
Deferred revenue	(607,424)
Total accrued revenues	831,954
Accrued expenditures:	
Medical claims payable	(971,053)
Accounts payable and accrued liabilities	(828,762)
Other payables	(190,746)
Total accrued expenditures	(1,990,561)
Other Adjustments:	
Notes receivable	21,830
Inventories	65,391
Investment Market Value	(17,950)
Timing Differences:	
Authorized carryforward for specific encumbrances	154,776
Fund balance (GAAP basis) June 30, 2010	$ (114,168)

D. Budgetary Reserves

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

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

At the beginning of fiscal year 2009-10 the balance of the Savings Reserve Account was $150 million. The General Assembly did not authorize any transfer of unreserved fund balance from fiscal year 2009-10 to the Savings Reserve Account under Session Law 2010-31. Therefore, at the end of the fiscal year 2009-10, the balance of this reserve remained at $150 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. The General Assembly did not authorize any transfer of unreserved fund balance from fiscal year 2009-10 to the Repairs and Renovations Reserve under Session Law 2010-31. Therefore, at the end of the fiscal year 2009-10, the balance of this reserve was $0.

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 2009-10, the remaining balance of this reserve was $0.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7). During fiscal year 2004-2005 $248.17 million was transferred to the Disaster Relief Reserve. This $248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve Account transfer, and transfers of funds from the unreserved credit balance. During fiscal year 2009-10, $2.7 million was disbursed from this reserve for disaster related expenditures resulting in a remaining balance of $41.3 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 and $12.4 million for fiscal year 2007-08. While $27.4 million was appropriated for JDIG for fiscal year 2008-09, this entire amount was directed by the Governor to revert at year end to help ensure that the State not incur a deficit. The JDIG Reserve was appropriated $19 million for fiscal year 2009-10 and $21 million was disbursed from this reserve. At the end of fiscal year 2009-10, the balance of this reserve was $3.1 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, 2010 *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 1,419,285	$ —	$ 991	$ 1,420,276
Investments	218,430	—	—	218,430
Securities lending collateral	252,154	—	15,390	267,544
Receivables, net:				
Taxes receivable	2,243	—	—	2,243
Accounts receivable	22,466	—	—	22,466
Intergovernmental receivable	7,458	2,466	—	9,924
Interest receivable	4,651	—	11	4,662
Due from other funds	29,443	15,488	—	44,931
Due from component units	19,430	—	—	19,430
Inventories	49,132	—	—	49,132
Advances to component units	21,742	—	—	21,742
Notes receivable, net	301,821	—	—	301,821
Securities held in trust	44,021	—	—	44,021
Restricted/designated cash and cash equivalents	116	202,961	9,650	212,727
Restricted investments	565,294	74	81,803	647,171
Total Assets	$ 2,957,686	$ 220,989	$ 107,845	$ 3,286,520
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	$ 35,907	$ 29,727	$ —	$ 65,634
Accrued payroll	402	—	—	402
Intergovernmental payable	15,992	1,040	—	17,032
Claims payable	36,253	—	—	36,253
Obligations under securities lending	258,915	—	15,938	274,853
Due to fiduciary funds	47	—	—	47
Due to other funds	24,870	13	—	24,883
Due to component units	81,074	—	—	81,074
Deferred revenue	36,872	—	—	36,872
Deposits payable	316	—	—	316
Funds held for others	44,081	—	—	44,081
Total Liabilities	534,729	30,780	15,938	581,447
Fund Balances:				
Reserved	627,687	179,898	84,766	892,351
Unreserved	1,795,270	10,311	7,141	1,812,722
Total Fund Balances	2,422,957	190,209	91,907	2,705,073
Total Liabilities and Fund Balances	$ 2,957,686	$ 220,989	$ 107,845	$ 3,286,520

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

For the Fiscal Year Ended June 30, 2010 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax	$ 2,138	$ —	$ —	$ 2,138
Sales and use tax	28,793	—	—	28,793
Gasoline tax	27,758	—	—	27,758
Insurance tax	11,931	—	—	11,931
Other taxes	152,591	—	—	152,591
Federal funds	327,070	5,925	—	332,995
Local funds	24,597	7,250	—	31,847
Investment earnings	64,967	719	10,616	76,302
Interest earnings on loans	4,341	—	—	4,341
Sales and services	164,389	66	—	164,455
Rental and lease of property	4,410	39	10	4,459
Fees, licenses, and fines	184,556	—	3,035	187,591
Contributions, gifts, and grants	25,284	32,645	56	57,985
Funds escheated	70,381	—	—	70,381
Federal recovery funds	118,621	18,461	—	137,082
Miscellaneous	16,369	48	1	16,418
Total revenues	1,228,196	65,153	13,718	1,307,067
Expenditures:				
Current:				
General government	53,123	—	—	53,123
Primary and secondary education	302,552	—	—	302,552
Higher education	496,916	14	27	496,957
Health and human services	103,805	—	—	103,805
Economic development	430,130	—	—	430,130
Environment and natural resources	292,398	—	215	292,613
Public safety, corrections, and regulation	438,585	—	—	438,585
Agriculture	27,323	—	—	27,323
Capital outlay	—	341,058	—	341,058
Debt service:				
Principal retirement	1,488	—	—	1,488
Interest and fees	802	881	—	1,683
Debt issuance costs	133	—	—	133
Total expenditures	2,147,255	341,953	242	2,489,450
Excess revenues over (under) expenditures	(919,059)	(276,800)	13,476	(1,182,383)
Other Financing Sources (Uses):				
General obligation bonds issued	487,700	—	—	487,700
Premium on debt issued	55,959	—	—	55,959
Sale of capital assets	5,079	19	—	5,098
Insurance recoveries	318	167	—	485
Transfers in	1,375,022	202,299	730	1,578,051
Transfers out	(938,474)	(16,718)	(198)	(955,390)
Total other financing sources (uses)	985,604	185,767	532	1,171,903
Net change in fund balances	66,545	(91,033)	14,008	(10,480)
Fund balances — July 1, as restated	2,356,412	281,242	77,899	2,715,553
Fund balances — June 30	$ 2,422,957	$ 190,209	$ 91,907	$ 2,705,073

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NONMAJOR SPECIAL REVENUE FUNDS

The special revenue funds are maintained to account for those financial resources which are restricted by legal, regulatory or administrative action to finance particular functions or activities of the State.

The following are included in the nonmajor special revenue funds:

Escheat Fund
Health and Wellness Trust Fund
Tobacco Trust Fund
Clean Water Funds
Higher Education and Public Improvement Bond Funds
Public School Building Capital Fund
Clean Water Management Trust Fund
N.C. Infrastructure Finance Corporation
Special Indebtedness
Natural Gas Funds
Correction Enterprises Fund
Educational Materials and School Buses Fund
Employment Security Commission Funds
Highway Patrol Fund
Employment and Training Administration Fund
Leaking Petroleum Underground Storage Tank Cleanup Fund
Ecosystem Enhancement Funds
Wildlife Resources Commission Fund
Natural Heritage Trust Fund
911 Fund
Parks and Recreation Trust Fund
Education Lottery Funds
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2010

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust Fund	Tobacco Trust Fund	Clean Water Funds	Higher Education and Public Improvement Bond Funds	Public School Building Capital Fund	Clean Water Management Trust Fund
Assets							
Cash and cash equivalents	$ 225,037	$ 53,529	$ 18,234	$ 31,945	$ —	$ 250,043	$ 120,361
Investments	216,915	—	—	—	—	—	1,249
Securities lending collateral	57,501	10,599	3,604	6,301	—	54,375	24,159
Receivables, net:							
Taxes receivable	—	—	—	—	—	—	—
Accounts receivable	—	—	21	—	—	—	—
Intergovernmental receivable	—	—	—	—	—	—	—
Interest receivable	245	63	—	560	82	314	141
Due from other funds	—	—	—	—	6	—	—
Due from component units	16,619	—	—	—	—	—	—
Inventories	—	—	—	—	—	—	—
Advances to component units	21,742	—	—	—	—	—	—
Notes receivable, net	—	—	—	95,570	—	—	—
Securities held in trust	—	—	—	—	—	—	—
Restricted/designated cash and cash equivalents	—	—	—	—	—	—	—
Restricted investments	—	—	—	—	533,603	—	—
Total Assets	$ 538,059	$ 64,191	$ 21,859	$ 134,376	$ 533,691	$ 304,732	$ 145,910
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable	$ —	$ 801	$ 26	$ —	$ 11	$ —	$ 512
Accrued payroll	—	—	—	—	—	—	—
Intergovernmental payable	—	—	—	—	—	—	3,359
Claims payable	36,253	—	—	—	—	—	—
Obligations under securities lending	58,740	10,883	3,709	6,498	—	55,940	24,683
Due to fiduciary funds	—	—	—	—	—	—	—
Due to other funds	—	17	—	—	15,461	—	4
Due to component units	7,344	—	—	—	36,165	—	—
Deferred revenue	18,239	—	—	—	—	—	—
Deposits payable	—	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—	—
Total Liabilities	120,576	11,701	3,735	6,498	51,637	55,940	28,558
Fund Balances:							
Reserved for:							
Inventories	—	—	—	—	—	—	—
Notes receivable	—	—	—	95,570	—	—	—
Capital projects	—	—	—	—	—	—	—
Loan and grant commitments	—	—	—	8,047	—	—	110,754
Advance to component unit	21,742	—	—	—	—	—	—
Unreserved:							
Undesignated	395,741	52,490	18,124	24,261	482,054	248,792	6,598
Total Fund Balances	417,483	52,490	18,124	127,878	482,054	248,792	117,352
Total Liabilities and Fund Balances	$ 538,059	$ 64,191	$ 21,859	$ 134,376	$ 533,691	$ 304,732	$ 145,910

Exhibit C-3

N.C. Infrastructure Finance Corporation	Special Indebtedness	Natural Gas Funds	Correction Enterprises Fund	Educational Materials and School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund
$ —	$ —	$ —	$ 12,989	$ 93,028	$ 18,750	$ 8,386	$ 2,596	$ 66,679
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	716	—	12,627
—	—	—	—	—	—	—	—	1,542
—	—	—	2,241	125	846	3,059	1	503
—	—	—	193	1,182	1,318	499	—	—
—	—	—	—	—	—	—	—	—
—	—	—	3,023	—	45	—	—	—
—	—	—	7	—	—	—	—	—
—	—	—	19,513	4,209	264	19,746	—	—
—	—	—	—	—	—	—	—	—
—	—	200,000	—	—	—	—	—	648
—	—	—	—	—	—	—	—	—
—	1	—	—	—	—	—	—	—
21,523	8,107	—	—	—	—	—	—	—
$ 21,523	$ 8,108	$ 200,000	$ 37,966	$ 98,544	$ 21,223	$ 32,406	$ 2,597	$ 81,999
$ —	$ —	$ —	$ 3,253	$ 8,142	$ 5,370	$ 1,947	$ 517	$ 3,181
—	—	—	17	—	151	8	—	—
—	—	—	1	54	1,096	5	—	52
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	736	—	13,028
—	—	—	—	—	—	—	—	—
101	1	—	204	2	5,671	220	20	—
3,751	—	—	—	—	—	—	—	—
—	—	—	56	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
3,852	1	—	3,531	8,198	12,288	2,916	537	16,261
—	—	—	19,513	4,209	264	19,746	—	—
—	—	200,000	—	—	—	—	—	648
—	—	—	58	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
17,671	8,107	—	14,864	86,137	8,671	9,744	2,060	65,090
17,671	8,107	200,000	34,435	90,346	8,935	29,490	2,060	65,738
$ 21,523	$ 8,108	$ 200,000	$ 37,966	$ 98,544	$ 21,223	$ 32,406	$ 2,597	$ 81,999

Continued

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2010

(Dollars in Thousands)

	Ecosystem Enhancement Funds	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds
Assets						
Cash and cash equivalents	$ 35,200	$ 23,460	$ 24,531	$ 44,009	$ 37,029	$ 36,384
Investments	—	—	—	—	—	—
Securities lending collateral	6,954	2,080	4,697	8,728	6,883	13,393
Receivables, net:						
Taxes receivable	—	—	—	—	—	—
Accounts receivable	—	932	7	7,881	7	—
Intergovernmental receivable	—	3,020	—	—	—	—
Interest receivable	46	21	27	49	37	27
Due from other funds	—	—	—	—	69	18,058
Due from component units	—	—	—	—	—	—
Inventories	—	1,547	—	—	—	—
Advances to component units	—	—	—	—	—	—
Notes receivable, net	—	—	—	—	—	—
Securities held in trust	—	—	—	—	—	—
Restricted/designated cash and cash equivalents	—	—	—	—	—	—
Restricted investments	—	—	—	—	—	—
Total Assets	$ 42,200	$ 31,060	$ 29,262	$ 60,667	$ 44,025	$ 67,862
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	$ 921	$ 1,069	$ 2	$ 41	$ 69	$ —
Accrued payroll	—	53	—	—	—	—
Intergovernmental payable	—	—	—	5,331	352	—
Claims payable	—	—	—	—	—	—
Obligations under securities lending	7,128	2,128	4,836	9,011	7,071	13,874
Due to fiduciary funds	—	—	—	—	—	—
Due to other funds	9	223	—	2,449	—	—
Due to component units	—	—	—	—	—	19,556
Deferred revenue	—	—	—	—	—	—
Deposits payable	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—
Total Liabilities	8,058	3,473	4,838	16,832	7,492	33,430
Fund Balances:						
Reserved for:						
Inventories	—	1,547	—	—	—	—
Notes receivable	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—
Loan and grant commitments	83,297	—	19,748	—	25,808	—
Advance to component unit	—	—	—	—	—	—
Unreserved:						
Undesignated	(49,155)	26,040	4,676	43,835	10,725	34,432
Total Fund Balances	34,142	27,587	24,424	43,835	36,533	34,432
Total Liabilities and Fund Balances	$ 42,200	$ 31,060	$ 29,262	$ 60,667	$ 44,025	$ 67,862

Exhibit C-3

Departmental Funds	Total Nonmajor Special Revenue Funds
$ 317,095	$ 1,419,285
266	218,430
39,537	252,154
701	2,243
6,843	22,466
1,246	7,458
3,039	4,651
8,242	29,443
2,804	19,430
3,853	49,132
—	21,742
5,603	301,821
44,021	44,021
115	116
2,061	565,294
$ 435,426	$ 2,957,686
$ 10,045	$ 35,907
173	402
5,742	15,992
—	36,253
40,650	258,915
47	47
488	24,870
14,258	81,074
18,577	36,872
316	316
44,081	44,081
134,377	534,729
3,853	49,132
5,603	301,821
—	58
7,280	254,934
—	21,742
284,313	1,795,270
301,049	2,422,957
$ 435,426	$ 2,957,686

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

For the Fiscal Year Ended June 30, 2010

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust Fund	Tobacco Trust Fund	Clean Water Funds	Higher Education and Public Improvement Bond Funds	Public School Building Capital Fund	Clean Water Management Trust Fund
Revenues:							
Taxes:							
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use tax	—	—	—	—	—	—	—
Gasoline tax	—	—	—	—	—	—	—
Insurance tax	—	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—	—
Federal funds	—	—	—	—	—	—	—
Local funds	—	—	—	—	—	—	—
Investment earnings	31,711	2,076	774	1,033	336	9,005	5,101
Interest earnings on loans	—	—	—	3,490	—	—	—
Sales and services	—	—	—	127	—	—	16
Rental and lease of property	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—
Funds escheated	70,381	—	—	—	—	—	—
Federal recovery funds	—	71	—	—	—	—	—
Miscellaneous	—	—	—	—	—	—	14
Total revenues	102,092	2,147	774	4,650	336	9,005	5,131
Expenditures:							
Current:							
General government	3,724	—	—	—	1,836	—	—
Primary and secondary education	—	—	—	—	—	160,775	—
Higher education	151,994	—	—	—	64,029	—	—
Health and human services	—	20,378	—	—	—	—	—
Economic development	—	—	—	11,400	34	—	—
Environment and natural resources	—	—	—	2,342	—	—	68,383
Public safety, corrections, and regulation	—	—	—	—	—	—	—
Agriculture	—	—	15,674	—	—	—	—
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—
Debt issuance costs	—	—	—	—	—	—	—
Total expenditures	155,718	20,378	15,674	13,742	65,899	160,775	68,383
Excess revenues over (under) expenditures	(53,626)	(18,231)	(14,900)	(9,092)	(65,563)	(151,770)	(63,252)
Other Financing Sources (Uses):							
General obligation bonds issued	—	—	—	—	487,700	—	—
Premium on debt issued	—	—	—	—	55,959	—	—
Sale of capital assets	—	—	—	—	—	—	—
Insurance recoveries	—	—	—	—	—	—	—
Transfers in	—	36,590	36,590	13,720	—	179,109	48,654
Transfers out	(21,279)	(22,763)	(20,309)	(10,813)	(61,768)	(7,985)	(1,754)
Total other financing sources (uses)	(21,279)	13,827	16,281	2,907	481,891	171,124	46,900
Net change in fund balances	(74,905)	(4,404)	1,381	(6,185)	416,328	19,354	(16,352)
Fund balances — July 1, as restated	492,388	56,894	16,743	134,063	65,726	229,438	133,704
Fund balances — June 30	$ 417,483	$ 52,490	$ 18,124	$ 127,878	$ 482,054	$ 248,792	$ 117,352

Exhibit C-4

N.C. Infrastructure Finance Corporation	Special Indebtedness	Natural Gas Funds	Correction Enterprises Fund	Educational Materials and School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	17,765
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	144,299	2,771	86,527	—
—	—	—	—	—	18,689	—	—	—
39	226	—	—	—	—	154	—	1,863
—	—	—	—	—	—	—	—	—
—	—	—	79,676	5,909	—	1,239	2	—
—	—	—	205	2,178	—	40	—	—
—	—	—	—	—	4,479	1,840	236	11,621
—	—	—	20	—	2,068	1,026	3	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	14,958	—	53,815	—
—	—	—	136	29	943	1,568	—	—
39	226	—	80,037	8,116	185,436	8,638	140,583	31,249
152	—	—	—	—	—	—	—	—
—	—	—	—	89,603	—	—	—	—
4,782	214,819	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	228	—	—	—	197,986	—	138,580	—
—	—	—	—	—	—	—	—	18,944
—	—	—	77,096	—	—	208,382	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
17	89	—	—	—	—	—	—	—
1	132	—	—	—	—	—	—	—
4,952	215,268	—	77,096	89,603	197,986	208,382	138,580	18,944
(4,913)	(215,042)	—	2,941	(81,487)	(12,550)	(199,744)	2,003	12,305
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	57	2,136	—	2,666	—	—
—	—	—	—	—	—	318	—	—
—	—	—	223	153,880	19,133	209,272	—	4,283
(6,476)	(126,990)	—	(4,311)	(783)	(3,774)	(2,534)	(455)	(5,246)
(6,476)	(126,990)	—	(4,031)	155,233	15,359	209,722	(455)	(963)
(11,389)	(342,032)	—	(1,090)	73,746	2,809	9,978	1,548	11,342
29,060	350,139	200,000	35,525	16,600	6,126	19,512	512	54,396
$ 17,671	$ 8,107	$ 200,000	$ 34,435	$ 90,346	$ 8,935	$ 29,490	$ 2,060	$ 65,738

Continued

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

For the Fiscal Year Ended June 30, 2010

(Dollars in Thousands)

	Ecosystem Enhancement Funds	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds
Revenues:						
Taxes:						
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use tax	—	21,500	—	—	—	—
Gasoline tax	—	1,918	—	—	—	—
Insurance tax	—	—	—	—	—	—
Other taxes	—	—	8,551	91,491	25,653	—
Federal funds	—	16,269	—	—	—	—
Local funds	—	253	—	—	—	—
Investment earnings	1,751	542	793	1,229	1,103	(240)
Interest earnings on loans	—	—	—	—	—	—
Sales and services	—	6,478	—	855	—	—
Rental and lease of property	—	59	—	—	—	—
Fees, licenses, and fines	22,740	22,756	4,162	—	1,376	—
Contributions, gifts, and grants	—	1,734	—	—	—	—
Funds escheated	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—
Miscellaneous	28	80	—	—	—	—
Total revenues	24,519	71,589	13,506	93,575	28,132	(240)
Expenditures:						
Current:						
General government	—	—	—	—	—	—
Primary and secondary education	—	—	—	—	—	13
Higher education	—	—	—	—	—	56,363
Health and human services	—	—	—	—	—	—
Economic development	—	—	—	—	—	—
Environment and natural resources	32,010	59,796	8,058	—	32,081	—
Public safety, corrections, and regulation	—	—	—	67,151	—	—
Agriculture	—	—	—	—	—	—
Debt service:						
Principal retirement	—	740	—	—	—	—
Interest and fees	—	692	—	—	—	—
Debt issuance costs	—	—	—	—	—	—
Total expenditures	32,010	61,228	8,058	67,151	32,081	56,376
Excess revenues over (under) expenditures	(7,491)	10,361	5,448	26,424	(3,949)	(56,616)
Other Financing Sources (Uses):						
General obligation bonds issued	—	—	—	—	—	—
Premium on debt issued	—	—	—	—	—	—
Sale of capital assets	—	69	—	—	—	—
Insurance recoveries	—	—	—	—	—	—
Transfers in	—	586	1,671	—	15,283	432,205
Transfers out	(55)	(6,730)	(4,629)	(6,858)	(8,564)	(363,144)
Total other financing sources (uses)	(55)	(6,075)	(2,958)	(6,858)	6,719	69,061
Net change in fund balances	(7,546)	4,286	2,490	19,566	2,770	12,445
Fund balances — July 1, as restated	41,688	23,301	21,934	24,269	33,763	21,987
Fund balances — June 30	$ 34,142	$ 27,587	$ 24,424	$ 43,835	$ 36,533	$ 34,432

Exhibit C-4

Departmental Funds	Total Nonmajor Special Revenue Funds
$ 2,138	$ 2,138
7,293	28,793
8,075	27,758
11,931	11,931
26,896	152,591
77,204	327,070
5,655	24,597
7,471	64,967
851	4,341
70,087	164,389
1,928	4,410
115,346	184,556
20,433	25,284
—	70,381
49,777	118,621
13,571	16,369
418,656	1,228,196
47,411	53,123
52,161	302,552
4,929	496,916
83,427	103,805
81,902	430,130
70,784	292,398
85,956	438,585
11,649	27,323
748	1,488
4	802
—	133
438,971	2,147,255
(20,315)	(919,059)
—	487,700
—	55,959
151	5,079
—	318
223,823	1,375,022
(251,254)	(938,474)
(27,280)	985,604
(47,595)	66,545
348,644	2,356,412
$ 301,049	$ 2,422,957

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, 2010

(Dollars in Thousands)

	Escheat Fund			Health and Wellness Trust Fund			Tobacco Trust Fund		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—	—
Intra-governmental transactions	—	—	—	30,779	36,590	5,811	35,641	36,590	949
Sales and services	—	—	—	—	—	—	—	—	—
Sale, rental, and lease of property	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	71	71	—	—	—
Miscellaneous	346,757	108,077	(238,680)	—	935	935	237	272	35
Total revenues	346,757	108,077	(238,680)	30,779	37,596	6,817	35,878	36,862	984
Expenditures:									
Current:									
General government	5,003	4,334	669	—	—	—	—	—	—
Primary and secondary education	—	—	—	—	—	—	—	—	—
Higher education	206,334	171,518	34,816	—	—	—	—	—	—
Health and human services	—	—	—	52,541	47,943	4,598	—	—	—
Economic development	—	—	—	—	—	—	—	—	—
Environmental and natural resources	—	—	—	—	—	—	—	—	—
Public safety and corrections	—	—	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	35,952	35,952	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Debt issuance cost	—	—	—	—	—	—	—	—	—
Total expenditures	211,337	175,852	35,485	52,541	47,943	4,598	35,952	35,952	—
Excess revenues over (under) expenditures	$ 135,420	$ (67,775)	$ (203,195)	$ (21,762)	$ (10,347)	$ 11,415	$ (74)	$ 910	$ 984
Fund balances (budgetary basis) at July 1, 2009		548,466			63,876			17,325	
Restatements		—			—			—	
Fund balances (budgetary basis) at June 30, 2010		$ 480,691			$ 53,529			$ 18,235	

Exhibit C-5

Clean Water Funds			Public School Bond Fund			Higher Education and Public Improvement Bond Funds			Public School Building Capital 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
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
17,523	3,070	(14,453)	—	—	—	—	—	—	217,231	179,109	(38,122)
109	127	18	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
16,513	14,687	(1,826)	2,283	—	(2,283)	642,090	543,932	(98,158)	8,917	4,616	(4,301)
34,145	17,884	(16,261)	2,283	—	(2,283)	642,090	543,932	(98,158)	226,148	183,725	(42,423)
8,749	8,749	—	2,283	—	2,283	257,123	67,263	189,860	—	—	—
—	—	—	—	—	—	—	—	—	461,034	168,568	292,466
—	—	—	—	—	—	308,600	59,144	249,456	—	—	—
—	—	—	—	—	—	41,600	3,850	37,750	—	—	—
12,154	10,829	1,325	—	—	—	1,000	44	956	—	—	—
28,072	5,828	22,244	—	—	—	40,500	7,126	33,374	—	—	—
—	—	—	—	—	—	65,500	14,483	51,017	—	—	—
—	—	—	—	—	—	500	129	371	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	934	—	934	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
48,975	25,406	23,569	2,283	—	2,283	715,757	152,039	563,718	461,034	168,568	292,466
$ (14,830)	$ (7,522)	$ 7,308	$ —	$ —	$ —	$ (73,667)	$ 391,893	$ 465,560	$ (234,886)	$ 15,157	$ 250,043
	39,467			—			141,710			234,886	
	—			—			—			—	
	$ 31,945			$ —			$ 533,603			$ 250,043	

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, 2010

(Dollars in Thousands)

	Clean Water Management Trust Fund			N.C. Infrastructure Finance Corporation			Special Indebtedness		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—	—
Intra-governmental transactions	52,091	50,634	(1,457)	1,429	1,429	—	20,924	20,924	—
Sales and services	—	16	16	—	—	—	—	—	—
Sale, rental, and lease of property	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	—	—	—
Miscellaneous	2,300	2,367	67	329,127	40	(329,087)	26,939	306	(26,633)
Total revenues	54,391	53,017	(1,374)	330,556	1,469	(329,087)	47,863	21,230	(26,633)
Expenditures:									
Current:									
General government	—	—	—	323,520	4,289	319,231	41,575	20,559	21,016
Primary and secondary education	—	—	—	—	—	—	—	—	—
Higher education	—	—	—	15,300	7,645	7,655	215,452	214,819	633
Health and human services	—	—	—	5,900	3,190	2,710	7,426	7,318	108
Economic development	—	—	—	—	—	—	270	249	21
Environmental and natural resources	76,581	71,863	4,718	300	7	293	29,577	29,428	149
Public safety and corrections	—	—	—	2,528	656	1,872	95,555	95,368	187
Agriculture	—	—	—	150	133	17	345	293	52
Debt service:						—			—
Principal retirement	—	—	—	740	740	—	—	—	—
Interest and fees	—	—	—	840	706	134	140	89	51
Debt issuance cost	—	—	—	2,179	2	2,177	500	386	114
Total expenditures	76,581	71,863	4,718	351,457	17,368	334,089	390,840	368,509	22,331
Excess revenues over (under) expenditures	$ (22,190)	$ (18,846)	$ 3,344	$ (20,901)	$ (15,899)	$ 5,002	$ (342,977)	$ (347,279)	$ (4,302)
Fund balances (budgetary basis) at July 1, 2009		140,414			37,419			755,387	
Restatements		—			—			(400,000)	
Fund balances (budgetary basis) at June 30, 2010		$ 121,568			$ 21,520			$ 8,108	

Exhibit C-5

Natural Gas Funds			Correction Enterprises Fund			Educational Materials and School Buses Fund			Employment Security Commission Funds		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 159,628	$ 142,575	$ (17,053)
—	—	—	—	—	—	—	—	—	19,195	18,685	(510)
—	—	—	54	14	(40)	—	—	—	2,789	2,090	(699)
—	—	—	18	230	212	153,879	154,077	198	59,072	49,984	(9,088)
—	—	—	91,378	85,425	(5,953)	2,811	4,830	2,019	—	—	—
—	—	—	77	293	216	3,180	4,314	1,134	—	—	—
—	—	—	—	—	—	—	—	—	5,000	4,546	(454)
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	24,970	14,958	(10,012)
1	—	(1)	392	117	(275)	15	30	15	1,705	1,061	(644)
1	—	(1)	91,919	86,079	(5,840)	159,885	163,251	3,366	272,359	233,899	(38,460)
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	189,546	102,335	87,211	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
4	—	4	—	—	—	—	—	—	272,359	229,464	42,895
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	93,154	83,237	9,917	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
4	—	4	93,154	83,237	9,917	189,546	102,335	87,211	272,359	229,464	42,895
$ (3)	$ —	$ 3	$ (1,235)	$ 2,842	$ 4,077	$ (29,661)	$ 60,916	$ 90,577	$ —	$ 4,435	$ 4,435
	—			10,147			32,112			14,315	
	—			—			—			—	
	$ —			$ 12,989			$ 93,028			$ 18,750	

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, 2010

(Dollars in Thousands)

	Highway Patrol Fund			Employment and Training Administation 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	$ 4,089	$ 2,271	$ (1,818)	$189,932	$ 86,528	$ (103,404)	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	1,148	982	(166)	—	—	—	—	—	—
Intra-governmental transactions	230,150	211,993	(18,157)	344	344	—	18,005	22,031	4,026
Sales and services	1,650	1,038	(612)	1	2	1	—	—	—
Sale, rental, and lease of property	2,490	2,664	174	1	—	(1)	—	—	—
Fees, licenses, and fines	2,021	1,841	(180)	265	236	(29)	9,580	11,664	2,084
Contributions, gifts, and grants	32	—	(32)	—	2	2	—	—	—
Federal recovery funds	—	—	—	53,815	53,815	—	—	—	—
Miscellaneous	463	648	185	—	—	—	110	1,001	891
Total revenues	242,043	221,437	(20,606)	244,358	140,927	(103,431)	27,695	34,696	7,001
Expenditures:									
Current:									
General government	—	—	—	—	—	—	—	—	—
Primary and secondary education	—	—	—	—	—	—	—	—	—
Higher education	—	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	244,374	138,914	105,460	—	—	—
Environmental and natural resources	—	—	—	—	—	—	29,326	27,287	2,039
Public safety and corrections	243,592	220,059	23,533	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Debt issuance cost	—	—	—	—	—	—	—	—	—
Total expenditures	243,592	220,059	23,533	244,374	138,914	105,460	29,326	27,287	2,039
Excess revenues over (under) expenditures	$ (1,549)	$ 1,378	$ 2,927	$ (16)	$ 2,013	$ 2,029	$ (1,631)	$ 7,409	$ 9,040
Fund balances (budgetary basis) at July 1, 2009		7,008			541			59,270	
Restatements		—			—			—	
Fund balances (budgetary basis) at June 30, 2010		$ 8,386			$ 2,554			$ 66,679	

Exhibit C-5

Ecosystem Enhancement Funds			Wildlife Resources Commission Fund			Natural Heritage Trust Fund			911 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
$ —	$ —	$ —	$ 16,902	$ 15,555	$ (1,347)	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	239	253	14	—	—	—	—	—	—
—	—	—	955	1,096	141	—	—	—	—	—	—
5,027	25,116	20,089	81,933	83,382	1,449	19,150	8,551	(10,599)	—	6	6
—	—	—	6,518	6,489	(29)	—	—	—	917	860	(57)
—	—	—	105	146	41	—	—	—	—	—	—
94,695	22,740	(71,955)	21,202	22,937	1,735	—	4,154	4,154	97,967	91,956	(6,011)
—	—	—	184	416	232	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
6	801	795	142	405	263	1,000	403	(597)	1,409	651	(758)
99,728	48,657	(51,071)	128,180	130,679	2,499	20,150	13,108	(7,042)	100,293	93,473	(6,820)
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
98,198	57,527	40,671	132,644	125,655	6,989	65,403	12,182	53,221	—	—	—
—	—	—	—	—	—	—	—	—	112,751	85,488	27,263
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	740	740	—	—	—	—	—	—	—
—	—	—	699	692	7	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
98,198	57,527	40,671	134,083	127,087	6,996	65,403	12,182	53,221	112,751	85,488	27,263
$ 1,530	$ (8,870)	$ (10,400)	$ (5,903)	$ 3,592	$ 9,495	$ (45,253)	$ 926	$ 46,179	$ (12,458)	$ 7,985	$ 20,443
	44,070			19,867			23,604			36,024	
	—			—			—			—	
	$ 35,200			$ 23,459			$ 24,530			$ 44,009	

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, 2010

(Dollars in Thousands)

	Parks and Recreation Trust Fund			Education Lottery Funds			Departmental 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	$ —	$ —	$ —	$ —	$ —	$ —	$ 128,727	$ 77,197	$ (51,530)
Local funds	—	—	—	—	—	—	13,500	5,618	(7,882)
Inter-agency grants and allocations	—	—	—	—	—	—	33,770	15,261	(18,509)
Intra-governmental transactions	33,395	36,095	2,700	419,463	419,463	—	366,449	345,549	(20,900)
Sales and services	—	—	—	—	—	—	75,011	71,336	(3,675)
Sale, rental, and lease of property	—	—	—	—	—	—	2,269	2,076	(193)
Fees, licenses, and fines	1,425	1,369	(56)	—	—	—	140,323	117,002	(23,321)
Contributions, gifts, and grants	—	—	—	—	—	—	7,588	4,197	(3,391)
Federal recovery funds	—	—	—	—	—	—	49,429	49,429	—
Miscellaneous	1,794	514	(1,280)	2,639	296	(2,343)	63,808	42,448	(21,360)
Total revenues	36,614	37,978	1,364	422,102	419,759	(2,343)	880,874	730,113	(150,761)
Expenditures:									
Current:									
General government	—	—	—	—	—	—	290,505	247,842	42,663
Primary and secondary education	—	—	—	365,778	363,144	2,634	80,336	61,769	18,567
Higher education	—	—	—	56,564	37,047	19,517	741	542	199
Health and human services	—	—	—	—	—	—	127,442	97,803	29,639
Economic development	—	—	—	—	—	—	180,041	138,252	41,789
Environmental and natural resources	45,974	35,700	10,274	—	—	—	155,432	103,023	52,409
Public safety and corrections	—	—	—	—	—	—	174,927	147,384	27,543
Agriculture	—	—	—	—	—	—	26,606	23,576	3,030
Debt service:									
Principal retirement	—	—	—	—	—	—	935	748	187
Interest and fees	—	—	—	—	—	—	1,581	4	1,577
Debt issuance cost	—	—	—	—	—	—	—	—	—
Total expenditures	45,974	35,700	10,274	422,342	400,191	22,151	1,038,546	820,943	217,603
Excess revenues over (under) expenditures	$ (9,360)	$ 2,278	$ 11,638	$ (240)	$ 19,568	$ 19,808	$ (157,672)	$ (90,830)	$ 66,842
Fund balances (budgetary basis) at July 1, 2009		34,750			16,816			394,650	
Restatements		—			—			(238)	
Fund balances (budgetary basis) at June 30, 2010		$ 37,028			$ 36,384			$ 303,582	

Exhibit C-5

Total Nonmajor Special Revenue Funds		
Final Budget	Actual	Variance with Final Budget
$ 499,278	$ 324,126	$ (175,152)
32,934	24,556	(8,378)
38,716	19,443	(19,273)
1,762,503	1,685,167	(77,336)
178,395	170,123	(8,272)
8,122	9,493	1,371
372,478	278,445	(94,033)
7,804	4,615	(3,189)
128,214	118,273	(9,941)
1,448,647	723,607	(725,040)
4,477,091	3,357,848	(1,119,243)
928,758	353,036	575,722
1,096,694	695,816	400,878
802,991	490,715	312,276
234,909	160,104	74,805
710,202	517,752	192,450
702,007	475,626	226,381
788,007	646,675	141,332
63,553	60,083	3,470
2,415	2,228	187
4,194	1,491	2,703
2,679	388	2,291
5,336,409	3,403,914	1,932,495
$ (859,318)	$ (46,066)	$ 813,252
	2,672,124	
	(400,238)	
	$ 2,225,820	

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NONMAJOR CAPITAL PROJECTS FUNDS

The Capital Projects funds are maintained to account for those financial resources received and used for the acquisition, construction or improvement of major governmental general fixed assets which are financed principally by transfers from the General Fund or lease purchase revenue bonds and certificates of participation.

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

Capital Projects Fund
State Energy Contracts

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

June 30, 2010 — *Exhibit C-6*

(Dollars in Thousands)

	Capital Projects Fund	State Energy Contracts	Total Nonmajor Capital Projects Funds
Assets			
Receivables, net:			
Intergovernmental receivable	$ 2,466	$ —	$ 2,466
Due from other funds	15,488	—	15,488
Restricted/designated cash and cash equivalents	202,240	721	202,961
Restricted investments	74	—	74
Total Assets	$ 220,268	$ 721	$ 220,989
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities:			
Accounts payable	$ 29,727	$ —	$ 29,727
Intergovernmental payable	1,040	—	1,040
Due to other funds	13	—	13
Total Liabilities	30,780	—	30,780
Fund Balances:			
Reserved for:			
Capital projects commitments	179,177	721	179,898
Unreserved:			
Undesignated	10,311	—	10,311
Total Fund Balances	189,488	721	190,209
Total Liabilities and Fund Balances	$ 220,268	$ 721	$ 220,989

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

For the Fiscal Year Ended June 30, 2010 *Exhibit C-7*

(Dollars in Thousands)

	Capital Projects Fund	State Energy Contracts	Total Nonmajor Capital Projects Funds
Revenues:			
Federal funds	$ 5,925	$ —	$ 5,925
Local funds	7,250	—	7,250
Investment earnings	—	719	719
Sales and services	66	—	66
Rental and lease of property	39	—	39
Contributions, gifts, and grants	32,645	—	32,645
Federal recovery funds	18,461	—	18,461
Miscellaneous	48	—	48
Total revenues	64,434	719	65,153
Expenditures:			
Current:			
Higher education	14	—	14
Capital outlay	341,058	—	341,058
Debt service:			
Interest and fees	—	881	881
Total expenditures	341,072	881	341,953
Excess revenues over (under) expenditures	(276,638)	(162)	(276,800)
Other Financing Sources (Uses):			
Sale of capital assets	19	—	19
Insurance recoveries	167	—	167
Transfers in	202,299	—	202,299
Transfers out	(16,718)	—	(16,718)
Total other financing sources (uses)	185,767	—	185,767
Net change in fund balances	(90,871)	(162)	(91,033)
Fund balances — July 1, as restated	280,359	883	281,242
Fund balances — June 30	$ 189,488	$ 721	$ 190,209

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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, 2010 *Exhibit C-8*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents	$ —	$ 991	$ 991
Receivables, net:			
Interest receivable	—	11	11
Securities lending collateral	13,344	2,046	15,390
Restricted/designated cash and cash equivalents	241	9,409	9,650
Restricted investments	81,212	591	81,803
Total Assets	$ 94,797	$ 13,048	$ 107,845
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending	$ 13,825	$ 2,113	$ 15,938
Total Liabilities	13,825	2,113	15,938
Fund Balances:			
Reserved for:			
Permanent investments	77,194	7,572	84,766
Unreserved:			
Undesignated	3,778	3,363	7,141
Total Fund Balances	80,972	10,935	91,907
Total Liabilities and Fund Balances	$ 94,797	$ 13,048	$ 107,845

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

For the Fiscal Year Ended June 30, 2010 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings	$ 10,293	$ 323	$ 10,616
Rental and lease of property	—	10	10
Fees, licenses, and fines	2,382	653	3,035
Contributions, gifts, and grants	4	52	56
Miscellaneous	—	1	1
Total revenues	12,679	1,039	13,718
Expenditures:			
Current:			
Higher education	—	27	27
Environment and natural resources	125	90	215
Total expenditures	125	117	242
Excess revenues over (under) expenditures	12,554	922	13,476
Other Financing Sources (Uses):			
Transfers in	—	730	730
Transfers out	(174)	(24)	(198)
Total other financing sources (uses)	(174)	706	532
Net change in fund balances	12,380	1,628	14,008
Fund balances — July 1, as restated	68,592	9,307	77,899
Fund balances — June 30	$ 80,972	$ 10,935	$ 91,907

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, 2010

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
Revenues:	**Final Budget**	**Actual**	**Variance with Final Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
Departmental:						
Inter-agency grants and allocations	$ —	$ —	$ —	—	$ 52	$ 52
Intra-governmental transactions	1,469	1,484	15	1,094	952	(142)
Sale, rental, and lease of property	—	—	—	10	10	—
Fees, licenses, and fines	2,848	2,391	(457)	852	656	(196)
Contributions, gifts, and grants	7	4	(3)	—	—	—
Miscellaneous	3,745	4,806	1,061	440	189	(251)
Total revenues	8,069	8,685	616	2,396	1,859	(537)
Expenditures:						
Current:						
Higher education	—	—	—	27	27	—
Environmental and natural resources	3,925	1,738	2,187	536	330	206
Total expenditures	3,925	1,738	2,187	563	357	206
Excess revenues over (under) expenditures	$ 4,144	6,947	$ 2,803	$ 1,833	1,502	$ (331)
Fund balances (budgetary basis) at July 1, 2009		69,437			9,483	
Fund balances (budgetary basis) at June 30, 2010		$ 76,384			$ 10,985	

Exhibit C-10

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
$ —	$ 52	$ 52
2,563	2,436	(127)
10	10	—
3,700	3,047	(653)
7	4	(3)
4,185	4,995	810
10,465	10,544	79
27	27	—
4,461	2,068	2,393
4,488	2,095	2,393
$ 5,977	8,449	$ 2,472
	78,920	
	$ 87,369	

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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
Departmental Funds

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2010

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Assets						
Current Assets:						
Cash and cash equivalents	$ 20,197	$ 3,304	$ 1,784	$ 1,273	$ 5,463	$ 387
Investments	54,737	—	—	—	18,844	—
Securities lending collateral	12,921	—	—	—	4,110	37
Receivables:						
Accounts receivable, net	—	103	15	—	3	2,952
Interest receivable	22	—	—	—	5	—
Premiums receivable	2,377	—	—	—	6	—
Inventories	—	120	391	11	—	48
Prepaid items	2,594	—	135	—	22	—
Restricted cash and cash equivalents	—	—	121	—	—	—
Total current assets	92,848	3,527	2,446	1,284	28,453	3,424
Noncurrent Assets:						
Investments	—	—	2,696	—	—	—
Restricted investments	—	—	2,137	—	—	—
Capital assets-nondepreciable	—	1,379	420	1,087	—	—
Capital assets-depreciable, net	—	6,537	2,337	5,078	—	139
Total noncurrent assets	—	7,916	7,590	6,165	—	139
Total Assets	92,848	11,443	10,036	7,449	28,453	3,563
Liabilities						
Current Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	257	30	172	33	—	56
Accrued payroll	—	52	24	4	—	—
Claims payable	530	—	—	—	15,643	—
Obligations under securities lending	13,394	—	—	—	4,245	11
Due to other funds	3	10	—	2	—	17
Unearned revenue	5,343	815	6	—	2,028	—
Deposits payable	—	14	26	—	—	—
Compensated absences	8	19	11	5	—	128
Total current liabilities	19,535	940	239	44	21,916	212
Noncurrent Liabilities:						
Compensated absences	92	267	73	77	—	1,375
Total noncurrent liabilities	92	267	73	77	—	1,375
Total Liabilities	19,627	1,207	312	121	21,916	1,587
Net Assets						
Invested in capital assets	—	7,916	2,757	6,165	—	139
Restricted for:						
Capital outlay	—	—	2,231	—	—	—
Unrestricted	73,221	2,320	4,736	1,163	6,537	1,837
Total Net Assets	$ 73,221	$ 10,236	$ 9,724	$ 7,328	$ 6,537	$ 1,976

Exhibit D-1

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
$ 58	$ 1,010	$ 1,894	$ 35,370
—	—	—	73,581
—	—	1	17,069
40	85	21	3,219
—	—	—	27
—	—	—	2,383
—	37	33	640
—	—	—	2,751
—	—	—	121
98	1,132	1,949	135,161
—	—	—	2,696
—	—	—	2,137
—	550	339	3,775
88	2,653	7,771	24,603
88	3,203	8,110	33,211
186	4,335	10,059	168,372
171	966	30	1,715
—	2	7	89
—	—	—	16,173
—	—	1	17,651
37	27	6	102
—	—	68	8,260
—	—	—	40
81	24	20	296
289	1,019	132	44,326
871	257	230	3,242
871	257	230	3,242
1,160	1,276	362	47,568
88	3,203	8,110	28,378
—	—	—	2,231
(1,062)	(144)	1,587	90,195
$ (974)	$ 3,059	$ 9,697	$ 120,804

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

For the Fiscal Year Ended June 30, 2010

(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	$ —	$ 240	$ 819	$ 23	$ —	$ 12
Rental and lease earnings	—	4,773	—	608	—	—
Fees, licenses, and fines	—	7,620	2,120	996	—	13,688
Insurance premiums	12,974	—	—	—	3,346	—
Miscellaneous	—	6	241	—	—	25
Total operating revenues	12,974	12,639	3,180	1,627	3,346	13,725
Operating Expenses:						
Personal services	608	5,516	1,323	818	—	12,341
Supplies and materials	2	718	89	64	—	30
Services	48	4,489	644	333	694	463
Cost of goods sold	—	—	258	—	—	—
Depreciation/amortization	—	629	108	315	—	6
Claims	849	49	—	—	6,198	—
Unemployment benefits	—	17	—	—	—	—
Insurance and bonding	3,852	171	20	46	974	1
Other	1	1,205	234	49	—	862
Total operating expenses	5,360	12,794	2,676	1,625	7,866	13,703
Operating income (loss)	7,614	(155)	504	2	(4,520)	22
Nonoperating Revenues (Expenses):						
Noncapital grants	—	—	—	—	—	446
Noncapital gifts	—	251	—	—	—	—
Investment earnings (loss)	7,363	—	73	—	2,636	426
Federal recovery funds	—	—	—	—	—	18
Miscellaneous	(43)	27	(532)	19	(15)	(4)
Total nonoperating revenues (expenses)	7,320	278	(459)	19	2,621	886
Income (loss) before contributions and transfers	14,934	123	45	21	(1,899)	908
Capital contributions	—	—	56	—	—	—
Transfers in	—	—	—	—	1,900	—
Transfers out	—	(293)	—	(9)	—	(12,526)
Change in net assets	14,934	(170)	101	12	1	(11,618)
Net assets — July 1, as restated	58,287	10,406	9,623	7,316	6,536	13,594
Net assets — June 30	$ 73,221	$ 10,236	$ 9,724	$ 7,328	$ 6,537	$ 1,976

Exhibit D-2

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
$ 1	$ 3	$ 110	$ 1,208
—	—	830	6,211
13,581	9,313	2,931	50,249
—	—	—	16,320
895	16	—	1,183
14,477	9,332	3,871	75,171
10,207	2,453	2,650	35,916
20	37	284	1,244
2,598	5,717	841	15,827
—	—	89	347
4	114	237	1,413
—	—	—	7,096
—	—	6	23
1	16	55	5,136
747	222	379	3,699
13,577	8,559	4,541	70,701
900	773	(670)	4,470
—	—	—	446
—	—	53	304
—	—	2	10,500
—	—	—	18
—	—	1	(547)
—	—	56	10,721
900	773	(614)	15,191
—	—	—	56
—	—	—	1,900
(3,632)	(8,045)	(1,288)	(25,793)
(2,732)	(7,272)	(1,902)	(8,646)
1,758	10,331	11,599	129,450
$ (974)	$ 3,059	$ 9,697	$ 120,804

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2010

(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	$ 12,920	$ 12,731	$ 3,183	$ 1,627	$ 3,154	$ 13,909
Payments to suppliers	(3,397)	(6,636)	(1,384)	(491)	(254)	(771)
Payments to employees	(607)	(5,542)	(1,339)	(811)	—	(12,403)
Payments for prizes, benefits, and claims	(776)	(49)	—	—	(5,802)	—
Payments to other funds	—	—	—	—	—	—
Other receipts	1,000	27	—	19	—	25
Other payments	—	—	—	—	—	(563)
Net cash flows provided (used) by operating activities	9,140	531	460	344	(2,902)	197
Cash Provided From (Used For) Noncapital Financing Activities:						
Grant receipts	—	—	—	—	—	446
Federal recovery funds	—	—	—	—	—	18
Transfers from other funds	—	—	—	—	1,900	—
Transfers to other funds	—	(293)	—	(9)	—	(12,526)
Gifts	—	251	—	—	—	—
Total cash provided from (used for) noncapital financing activities	—	(42)	—	(9)	1,900	(12,062)
Cash Provided From (Used For) Capital and Related Financing Activities:						
Acquisition and construction of capital assets	—	—	(232)	—	—	(17)
Capital contributions	—	—	56	—	—	—
Total cash provided from (used for) capital and related financing activities	—	—	(176)	—	—	(17)
Cash Provided From (Used For) Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	446	—	—	—
Purchase into State Treasurer investment pool	(1,725)	—	—	—	—	—
Investment earnings (loss)	309	—	56	—	99	127
Total cash provided from (used for) investment activities	(1,416)	—	502	—	99	127
Net increase (decrease) in cash and cash equivalents	7,724	489	786	335	(903)	(11,755)
Cash and cash equivalents at July 1, as restated	12,473	2,815	1,119	938	6,366	12,142
Cash and cash equivalents at June 30	$ 20,197	$ 3,304	$ 1,905	$ 1,273	$ 5,463	$ 387
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:						
Operating income (loss)	$ 7,614	$ (155)	$ 504	$ 2	$ (4,520)	$ 22
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation/amortization	—	629	108	315	—	6
Restatements and adjustments	—	250	—	—	(16)	—
Nonoperating miscellaneous income (expense)	—	27	—	19	—	—
(Increases) decreases in assets:						
Receivables	46	61	4	—	14	209
Inventories	—	(3)	(108)	(4)	—	(2)
Prepaid items	252	—	(40)	—	1,430	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities	327	(28)	11	4	397	18
Due to other funds	—	(10)	—	—	—	4
Pollution remediation payable	—	(250)	—	—	—	—
Compensated absences	1	(18)	(18)	8	—	(60)
Unearned revenue	900	31	(1)	—	(207)	—
Deposits payable	—	(3)	—	—	—	—
Total cash provided from (used for) operations	$ 9,140	$ 531	$ 460	$ 344	$ (2,902)	$ 197
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 2,677	$ —	$ —	$ —	$ 1,037	$ —
Capital asset writeoff	—	—	(532)	—	—	—
Assets acquired through the assumption of a liability	12,921	—	91	—	4,110	37
Change in fair value of investments	3,157	—	17	—	1,042	26

Exhibit D-3

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
$ 13,541	$ 9,353	$ 4,060	$ 74,478
(2,753)	(5,395)	(1,578)	(22,659)
(10,268)	(2,423)	(2,462)	(35,855)
—	—	—	(6,627)
—	—	—	—
358	16	1	1,446
—	(52)	(83)	(698)
878	1,499	(62)	10,085
—	—	—	446
—	—	—	18
—	—	—	1,900
(3,632)	(8,045)	(1,288)	(25,793)
—	—	54	305
(3,632)	(8,045)	(1,234)	(23,124)
—	—	—	(249)
—	—	—	56
—	—	—	(193)
—	—	—	446
—	—	—	(1,725)
—	—	2	593
—	—	2	(686)
(2,754)	(6,546)	(1,294)	(13,918)
2,812	7,556	3,188	49,409
$ 58	$ 1,010	$ 1,894	$ 35,491
$ 900	$ 773	$ (670)	$ 4,470
4	114	237	1,413
—	—	211	445
—	—	1	47
(40)	36	54	384
—	(3)	8	(112)
—	—	—	1,642
59	542	(20)	1,310
16	5	2	17
—	—	—	(250)
(61)	32	192	76
—	—	(77)	646
—	—	—	(3)
$ 878	$ 1,499	$ (62)	$ 10,085
$ —	$ —	$ —	$ 3,714
—	—	—	(532)
—	—	1	17,160
—	—	—	4,242

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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, 2010

(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	$ 282	$ 30,501	$ 46,856	$ —	$ 298
Investments	—	23,968	—	—	—
Securities lending collateral	—	9,966	—	—	—
Receivables:					
Accounts receivable, net	2,318	—	1,658	269	1,986
Interest receivable	—	32	—	—	—
Premiums receivable	—	2,391	—	—	—
Due from other funds	3,622	—	5,122	18	85
Due from component units	—	—	516	—	—
Inventories	—	—	84	12	—
Prepaid items	—	—	—	—	—
Total current assets	6,222	66,858	54,236	299	2,369
Noncurrent Assets:					
Capital assets-nondepreciable	—	—	288	—	—
Capital assets-depreciable, net	—	—	49,109	443	—
Total noncurrent assets	—	—	49,397	443	—
Total Assets	6,222	66,858	103,633	742	2,369
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	—	5,879	853	29	1
Accrued payroll	—	—	2	13	729
Claims payable	—	1,777	—	—	—
Obligations under securities lending	—	10,270	—	—	—
Due to other funds	—	—	31	556	2
Unearned revenue	—	7,996	—	—	—
Compensated absences	—	21	15	21	3
Total current liabilities	—	25,943	901	619	735
Noncurrent Liabilities:					
Compensated absences	—	249	128	177	33
Total noncurrent liabilities	—	249	128	177	33
Total Liabilities	—	26,192	1,029	796	768
Net Assets					
Invested in capital assets	—	—	49,397	443	—
Unrestricted	6,222	40,666	53,207	(497)	1,601
Total Net Assets	$ 6,222	$ 40,666	$ 102,604	$ (54)	$ 1,601

Exhibit E-1

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 24,561	$ 13,311	$ 1,020	$ 116,829
—	—	—	23,968
—	—	—	9,966
375	5,030	58	11,694
—	—	—	32
—	—	—	2,391
10,784	4,611	1	24,243
36	343	—	895
27	—	—	123
1,130	1	—	1,131
36,913	23,296	1,079	191,272
3,232	—	19	3,539
58,098	5,791	64	113,505
61,330	5,791	83	117,044
98,243	29,087	1,162	308,316
536	1,631	902	9,831
—	—	—	744
—	—	—	1,777
—	—	—	10,270
87	94	130	900
70	—	—	8,066
409	55	13	537
1,102	1,780	1,045	32,125
4,229	568	107	5,491
4,229	568	107	5,491
5,331	2,348	1,152	37,616
61,330	5,791	83	117,044
31,582	20,948	(73)	153,656
$ 92,912	$ 26,739	$ 10	$ 270,700

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

For the Fiscal Year Ended June 30, 2010

(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	55,793	—	45,437	3,884	12,260
Rental and lease earnings	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—
Insurance premiums	—	18,697	—	—	—
Miscellaneous	—	—	66	5	—
Total operating revenues	55,793	18,697	45,503	3,889	12,260
Operating Expenses:					
Personal services	—	1,788	1,983	2,876	11,943
Supplies and materials	—	2	13,780	47	3
Services	53,780	140	2,428	578	115
Cost of goods sold	—	—	342	—	—
Depreciation/amortization	—	—	15,517	94	—
Claims	—	492	—	—	—
Insurance and bonding	—	19,863	1,677	—	—
Other	—	89	5	112	45
Total operating expenses	53,780	22,374	35,732	3,707	12,106
Operating income (loss)	2,013	(3,677)	9,771	182	154
Nonoperating Revenues (Expenses):					
Noncapital grants	—	—	—	—	—
Investment earnings	—	4,180	—	—	—
Insurance recoveries	—	—	122	—	—
Gain (loss) on sale of equipment	—	—	172	—	—
Miscellaneous	—	(37)	118	9	—
Total nonoperating revenues (expenses)	—	4,143	412	9	—
Income (loss) before contributions and transfers	2,013	466	10,183	191	154
Capital contributions	—	—	22	—	—
Transfers in	—	—	—	—	—
Transfers out	—	(1,500)	(20,000)	—	—
Change in net assets	2,013	(1,034)	(9,795)	191	154
Net assets — July 1, as restated	4,209	41,700	112,399	(245)	1,447
Net assets — June 30	$ 6,222	$ 40,666	$ 102,604	$ (54)	$ 1,601

Exhibit E-2

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 18	$ —	$ —	$ 18
99,458	82,220	1,671	300,723
—	—	26	26
—	—	25	25
—	—	—	18,697
—	95	130	296
99,476	82,315	1,852	319,785
37,962	11,737	1,575	69,864
710	68	49	14,659
6,821	55,605	365	119,832
—	—	92	434
7,956	2,324	16	25,907
—	—	—	492
116	50	20	21,726
44,949	8,694	38	53,932
98,514	78,478	2,155	306,846
962	3,837	(303)	12,939
661	—	—	661
—	—	—	4,180
—	—	—	122
(353)	—	—	(181)
82	46	32	250
390	46	32	5,032
1,352	3,883	(271)	17,971
140	26	—	188
5,759	—	—	5,759
(124)	(4,382)	—	(26,006)
7,127	(473)	(271)	(2,088)
85,785	27,212	281	272,788
$ 92,912	$ 26,739	$ 10	$ 270,700

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2010

(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	$ 12,267	$ 12,216	$ 4,529	$ 665	$ 118
Receipts from federal agencies	—	—	—	—	—
Receipts from other funds	41,068	11,085	43,368	3,241	11,860
Payments to suppliers	(53,780)	(19,402)	(9,516)	(209)	(36)
Payments to employees	—	(1,829)	(1,994)	(2,889)	(11,710)
Payments for benefits and claims	—	(708)	—	—	—
Payments to other funds	—	(97)	(9,414)	(770)	(80)
Other receipts	—	—	184	13	—
Other payments	—	—	(4)	(38)	(45)
Net cash flows provided (used) by operating activities	(445)	1,265	27,153	13	107
Cash Provided From (Used For) Noncapital Financing Activities:					
Grant receipts	—	—	—	—	—
Transfers from other funds	—	—	—	—	—
Transfers to other funds	—	(1,500)	(20,000)	—	—
Total cash provided from (used for) noncapital financing activities	—	(1,500)	(20,000)	—	—
Cash Provided From (Used For) Capital and Related Financing Activities:					
Acquisition and construction of capital assets	—	—	—	(14)	—
Proceeds from the sale of capital assets	—	—	1,083	—	—
Insurance recoveries	—	—	122	—	—
Total cash provided from (used for) capital and related financing activities	—	—	1,205	(14)	—
Cash Provided From (Used For) Investment Activities:					
Investment earnings	—	580	—	—	—
Total cash provided from (used for) investment activities	—	580	—	—	—
Net increase (decrease) in cash and cash equivalents	(445)	345	8,358	(1)	107
Cash and cash equivalents at July 1	727	30,156	38,498	1	191
Cash and cash equivalents at June 30	$ 282	$ 30,501	$ 46,856	$ —	$ 298
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ 2,013	$ (3,677)	$ 9,771	$ 182	$ 154
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	—	15,517	94	—
Restatements and adjustments	—	—	—	—	—
Nonoperating miscellaneous income	—	—	118	9	—
(Increases) decreases in assets:					
Receivables	(844)	406	224	25	(478)
Due from other funds	(1,614)	—	2,274	(4)	195
Due from fiduciary funds	—	—	—	—	—
Due from component units	—	—	(37)	—	—
Inventories	—	—	19	18	—
Prepaid items	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	—	379	(734)	7	234
Due to other funds	—	—	12	(305)	2
Compensated absences	—	(40)	(11)	(13)	—
Unearned revenue	—	4,197	—	—	—
Total cash provided from (used for) operations	$ (445)	$ 1,265	$ 27,153	$ 13	$ 107
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ 1,319	$ —	$ —	$ —
Donated or transferred assets	—	—	22	—	—
Change in construction in progress as a result of accrual accounts payable	—	—	—	—	—
Assets acquired through the assumption of a liability	—	9,966	—	—	—
Change in fair value of investments	—	1,193	—	—	—

Exhibit E-3

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 1,987	$ 18,892	$ 649	$ 51,323
18	—	—	18
100,147	64,410	1,572	276,751
(41,516)	(62,293)	(287)	(187,039)
(36,994)	(12,437)	(1,586)	(69,439)
—	—	—	(708)
(10,529)	(1,723)	(147)	(22,760)
82	141	162	582
(608)	(396)	(10)	(1,101)
12,587	6,594	353	47,627
661	—	—	661
5,759	—	—	5,759
(124)	(4,382)	—	(26,006)
6,296	(4,382)	—	(19,586)
(15,294)	(1,887)	—	(17,195)
1,100	—	—	2,183
—	—	—	122
(14,194)	(1,887)	—	(14,890)
—	—	—	580
—	—	—	580
4,689	325	353	13,731
19,872	12,986	667	103,098
$ 24,561	$ 13,311	$ 1,020	$ 116,829
$ 962	$ 3,837	$ (303)	$ 12,939
7,956	2,324	16	25,907
—	—	(44)	(44)
82	46	32	287
1,539	(734)	(39)	99
1,098	1,665	583	4,197
1	2	—	3
(33)	150	—	80
(7)	—	—	30
858	81	—	939
(468)	(74)	38	(618)
(438)	(10)	83	(656)
967	(693)	(13)	197
70	—	—	4,267
$ 12,587	$ 6,594	$ 353	$ 47,627
$ —	$ —	$ —	$ 1,319
140	26	—	188
93	—	—	93
—	1,347	—	11,313
—	—	—	1,193

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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, 2010 *Exhibit F-1*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Assets			
Cash and cash equivalents	$ 19,663	$ —	$ 19,663
Investments:			
State Treasurer investment pool	623,178	52,786	675,964
Securities lending collateral	111,704	20	111,724
Receivables:			
Interest receivable	2,830	—	2,830
Total Assets	757,375	52,806	810,181
Liabilities			
Obligations under securities lending	115,176	21	115,197
Total Liabilities	115,176	21	115,197
Net Assets			
Held in trust for:			
Pool participants	642,199	52,785	694,984
Total Net Assets	$ 642,199	$ 52,785	$ 694,984

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS INVESTMENT TRUST FUNDS

For the Fiscal Year Ended June 30, 2010 — *Exhibit F-2*

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Additions:			
Investment Income:			
Investment earnings	$ 18,097	$ 4,295	$ 22,392
Less investment expenses	(451)	(169)	(620)
Net investment income	17,646	4,126	21,772
Pool share transactions:			
Reinvestment of dividends	17,646	4,126	21,772
Net share purchases/(redemptions)	84,563	5,893	90,456
Net pool share transactions	102,209	10,019	112,228
Total additions	119,855	14,145	134,000
Deductions:			
Distributions paid and payable	17,646	4,126	21,772
Total deductions	17,646	4,126	21,772
Change in net assets	102,209	10,019	112,228
Net assets — July 1, as restated	539,990	42,766	582,756
Net assets — June 30	$ 642,199	$ 52,785	$ 694,984

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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, 2010 *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	$ 280	$ 105,422	$ 13,259	$ 118,961
Investments:				
U.S. government securities	—	1,121	—	1,121
Certificates of deposit	—	61,308	—	61,308
Securities lending collateral	55	—	87	142
Receivables:				
Interest receivable	—	—	1	1
Sureties	893,207	—	—	893,207
Total Assets	893,542	167,851	13,347	1,074,740
Liabilities				
Obligations under securities lending	57	—	90	147
Total Liabilities	57	—	90	147
Net Assets				
Held in trust for:				
Individuals, organizations, and other governments	893,485	167,851	13,257	1,074,593
Total Net Assets	$ 893,485	$ 167,851	$ 13,257	$ 1,074,593

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

For the Fiscal Year Ended June 30, 2010 *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	$ 33,528	$ 127,177	$ —	$ 160,705
Total contributions	33,528	127,177	—	160,705
Investment Income:				
Investment earnings	7	3,933	32	3,972
Net investment income	7	3,933	32	3,972
Other additions:				
Miscellaneous	—	—	12,800	12,800
Total other additions	—	—	12,800	12,800
Total additions	33,535	131,110	12,832	177,477
Deductions:				
Payments in accordance with trust arrangements	20,264	124,918	—	145,182
Total deductions	20,264	124,918	—	145,182
Change in net assets	13,271	6,192	12,832	32,295
Net assets — July 1, as restated	880,214	161,659	425	1,042,298
Net assets — June 30	$ 893,485	$ 167,851	$ 13,257	$ 1,074,593

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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, 2010

(Dollars in Thousands)

	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010
Local Sales Tax Collections				
Assets				
Cash and cash equivalents	$ 369,067	$ 2,082,133	$ (2,109,163)	$ 342,037
Receivables:				
Taxes receivable	104,200	96,600	(104,200)	96,600
Due from other funds	15,818	17,773	(15,818)	17,773
Total Assets	$ 489,085	$ 2,196,506	$ (2,229,181)	$ 456,410
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 489,085	$ 2,196,506	$ (2,229,181)	$ 456,410
Total Liabilities	$ 489,085	$ 2,196,506	$ (2,229,181)	$ 456,410
Clerks of Court				
Assets				
Cash and cash equivalents	$ 83,416	$ 1,510,718	$ (1,500,826)	$ 93,308
Receivables:				
Accounts receivable	652	5,756	(5,737)	671
Sureties	84,932	50,152	(39,550)	95,534
Total Assets	$ 169,000	$ 1,566,626	$ (1,546,113)	$ 189,513
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 5,987	$ 119,005	$ (119,285)	$ 5,707
Funds held for others	163,013	483,736	(462,943)	183,806
Total Liabilities	$ 169,000	$ 602,741	$ (582,228)	$ 189,513
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents	$ 2,814,656	$ 603,280	$ —	$ 3,417,936
Investments:				
State Treasurer investment pool	45,743	—	(21,734)	24,009
Securities lending collateral	1,087,423	81,592	(488,930)	680,085
Total Assets	$ 3,947,822	$ 684,872	$ (510,664)	$ 4,122,030
Liabilities				
Obligations under securities lending	$ 1,087,423	$ —	$ (386,114)	$ 701,309
Funds held for others	2,860,399	663,138	(102,816)	3,420,721
Total Liabilities	$ 3,947,822	$ 663,138	$ (488,930)	$ 4,122,030
Insurers in Receivership				
Assets				
Cash and cash equivalents	$ 104,023	$ 9,834	$ (9,542)	$ 104,315
Investments:				
Corporate bonds	6,552	—	(2,647)	3,905
Corporate stocks	1,010	—	(1,008)	2
Receivables:				
Accounts receivable	14,975	97	(6,582)	8,490
Total Assets	$ 126,560	$ 9,931	$ (19,779)	$ 116,712
Liabilities				
Funds held for others	$ 126,560	$ 9,931	$ (19,779)	$ 116,712
Total Liabilities	$ 126,560	$ 9,931	$ (19,779)	$ 116,712

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2010 *Exhibit F-5*

(Dollars in Thousands)

	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010
Departmental Funds				
Assets				
Cash and cash equivalents	$ 34,453	$ 1,061,791	$ (1,063,677)	$ 32,567
Investments:				
Certificates of deposit	392	—	(67)	325
Securities lending collateral	8,834	615	(4,896)	4,553
Receivables:				
Accounts receivable	19	3	(15)	7
Due from other funds	47	—	—	47
Total Assets	$ 43,745	$ 1,062,409	$ (1,068,655)	$ 37,499
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 661	$ 7,319	$ (7,395)	$ 585
Intergovernmental payable	6,147	161,524	(161,524)	6,147
Obligations under securities lending	8,834	—	(4,144)	4,690
Deposits payable	2,692	3,464	(4,311)	1,845
Funds held for others	25,411	116,570	(117,749)	24,232
Total Liabilities	$ 43,745	$ 288,877	$ (295,123)	$ 37,499
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 3,405,615	$ 5,267,756	$ (4,683,208)	$ 3,990,163
Investments:				
Corporate bonds	6,552	—	(2,647)	3,905
Corporate stocks	1,010	—	(1,008)	2
Certificates of deposit	392	—	(67)	325
State Treasurer investment pool	45,743	—	(21,734)	24,009
Securities lending collateral	1,096,257	82,207	(493,826)	684,638
Receivables:				
Taxes receivable	104,200	96,600	(104,200)	96,600
Accounts receivable	15,646	5,856	(12,334)	9,168
Due from other funds	15,865	17,773	(15,818)	17,820
Sureties	84,932	50,152	(39,550)	95,534
Total Assets	$ 4,776,212	$ 5,520,344	$ (5,374,392)	$ 4,922,164
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 661	$ 7,319	$ (7,395)	$ 585
Intergovernmental payable	501,219	2,477,035	(2,509,990)	468,264
Obligations under securities lending	1,096,257	—	(390,258)	705,999
Deposits payable	2,692	3,464	(4,311)	1,845
Funds held for others	3,175,383	1,273,375	(703,287)	3,745,471
Total Liabilities	$ 4,776,212	$ 3,761,193	$ (3,615,241)	$ 4,922,164

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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, 2010
(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Biotechnology Center	N.C. Partnership for Children, Inc.	Rural Economic Development Center
Assets						
Cash and cash equivalents	$ 2,466	$ 9,272	$ 9,370	$ 22,358	$ 419	$ 94,343
Investments	9,520	—	—	717	2,312	123,412
Receivables, net	4,922	259	247	3,419	1,160	1,334
Due from component units	—	—	—	123	—	995
Inventories	735	1	—	—	—	—
Prepaid items	1,117	—	—	353	142	72
Notes receivable, net	—	8,278	—	2,254	—	1,198
Deferred charges	912	—	—	—	—	—
Restricted/designated cash and cash equiv	5,422	—	5,452	—	—	—
Restricted investments	—	—	—	—	1,777	—
Deferred outflow of resources	293	—	—	—	—	—
Capital assets-nondepreciable	72,780	—	187,855	8,254	—	—
Capital assets-depreciable, net	233,115	36	55,595	3,244	155	3,646
Total Assets	331,282	17,846	258,519	40,722	5,965	225,000
Liabilities						
Accounts payable and accrued liabilities	2,591	82	5,372	11,268	254	747
Interest payable	664	—	111	—	—	—
Due to primary government	21	1	16,623	—	1,215	5
Unearned revenue	142	—	4	—	—	590
Advance from primary government	—	—	21,742	—	—	—
Deposits payable	—	—	3	—	—	—
Funds held for others	—	—	25	—	65	—
Hedging derivatives liability	293	—	—	—	—	—
Long-term liabilities:						
Due within one year	2,181	2	188	—	19	10
Due in more than one year	103,667	22	5,189	—	185	124
Total Liabilities	109,559	107	49,257	11,268	1,738	1,476
Net Assets						
Invested in capital assets, net of related debt	201,137	36	216,420	11,498	155	3,635
Restricted for:						
Expendable:						
Health and human services	—	—	—	—	1,782	—
Economic development	5,423	—	5,452	857	—	213,518
Unrestricted	15,163	17,703	(12,610)	17,099	2,290	6,371
Total Net Assets	$ 221,723	$ 17,739	$ 209,262	$ 29,454	$ 4,227	$ 223,524

Exhibit G-1

Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Health Insurance Risk Pool	Total
$ 2,314	$ 1,906	$ 35,238	$ 177,686
825	—	—	136,786
186	148	1,050	12,725
67	—	—	1,185
9	—	—	745
42	35	20	1,781
366	—	—	12,096
—	—	—	912
—	45,816	—	56,690
—	—	—	1,777
—	—	—	293
67	15,398	—	284,354
934	79,793	8	376,526
4,810	143,096	36,316	1,063,556
63	2,540	3,452	26,369
—	—	—	775
—	—	—	17,865
137	—	1,013	1,886
—	—	—	21,742
—	22	—	25
—	—	—	90
—	—	—	293
49	—	—	2,449
—	—	—	109,187
249	2,562	4,465	180,681
1,001	95,191	8	529,081
—	—	—	1,782
—	45,799	—	271,049
3,560	(456)	31,843	80,963
$ 4,561	$ 140,534	$ 31,851	$ 882,875

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2010
(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	$ 39,650	$ 713	$ 8,389	$ 16,453	$ 125,055	$ 66,478
Program revenues:						
Charges for services	33,318	446	1,019	219	—	—
Operating grants and contributions:						
State aid - program	—	—	—	—	117,482	31,569
Other operating grants and contributions	177	151	190	2,632	326	7,898
Capital grants and contributions:						
State capital aid	192	—	—	450	—	—
Other capital grants and contributions	233	—	63,212	—	—	—
Net program (expense) revenue	(5,730)	(116)	56,032	(13,152)	(7,247)	(27,011)
Non-tax general revenues:						
State aid - general	—	—	1,280	14,134	5,702	997
Miscellaneous	—	—	25	600	76	603
Total non-tax general revenues	—	—	1,305	14,734	5,778	1,600
Change in net assets	(5,730)	(116)	57,337	1,582	(1,469)	(25,411)
Net assets — July 1, as restated	227,453	17,855	151,925	27,872	5,696	248,935
Net assets — June 30	$ 221,723	$ 17,739	$ 209,262	$ 29,454	$ 4,227	$ 223,524

Exhibit G-2

Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Health Insurance Risk Pool	Total
$ 3,557	$ 12,059	$ 16,423	$ 288,777
98	15,537	16,016	66,653
—	—	—	149,051
602	783	1,870	14,629
—	19,003	—	19,645
108	—	—	63,553
(2,749)	23,264	1,463	24,754
2,648	—	8,953	33,714
293	48	—	1,645
2,941	48	8,953	35,359
192	23,312	10,416	60,113
4,369	117,222	21,435	822,762
$ 4,561	$ 140,534	$ 31,851	$ 882,875

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2010 *Exhibit G-3*

(Dollars in Thousands)

	State Health Plan
Cash Flows from Operating Activities:	
Receipts from customers	$ 2,419,752
Payments to suppliers	(165,995)
Payments to employees	(3,065)
Payments for prizes, benefits, and claims	(2,383,829)
Net cash flows provided (used) by operating activities	(133,137)
Cash Provided From (Used For) Noncapital Financing Activities:	
State aid	5,000
Grant receipts	58,829
Repayment of notes payable	(2,620)
Total cash provided from (used for) noncapital financing activities	61,209
Cash Provided From (Used For) Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(21)
Total cash provided from (used for) capital and related financing activities	(21)
Cash Provided From (Used For) Investment Activities:	
Investment earnings	3,532
Total cash provided from (used for) investment activities	3,532
Net increase (decrease) in cash and cash equivalents	(68,417)
Cash and cash equivalents at July 1	189,901
Cash and cash equivalents at June 30	$ 121,484
Reconciliation of Operating Income (Loss) to Net Cash Provided From (Used For) Operating Activities:	
Operating income (loss)	$ (76,176)
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation/amortization	27
(Increases) decreases in assets:	
Receivables	3,485
Increases (decreases) in liabilities:	
Accounts payable and accrued liabilities	(4,474)
Due to primary government	1
Compensated absences	34
Unearned revenue	(51,213)
Claims payable	(4,821)
Total cash provided from (used for) operations	$ (133,137)

STATISTICAL SECTION

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Index to Statistical Section

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

Contents

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

NET ASSETS BY COMPONENT

For the Fiscal Years 2002-2010
(Dollars in Thousands)

	2010	2009	2008	2007	2006
Governmental activities:					
Invested in capital assets, net of related debt..	$ 35,452,614	$ 34,101,091	$ 30,984,578	$ 29,715,168	$ 28,052,926
Restricted..	704,712	714,014	877,915	1,094,352	890,602
Unrestricted...	(3,953,128)	(4,427,748)	(1,856,140)	(993,478)	(1,310,486)
Total governmental activities net assets [1].........	$ 32,204,198	$ 30,387,357	$ 30,006,353	$ 29,816,042	$ 27,633,042
Business-type activities:					
Invested in capital assets, net of related debt..	$ 158,556	$ 73,924	$ 32,063	$ 26,673	$ 26,975
Restricted..	1,078,689	1,003,613	1,773,018	1,612,943	1,286,477
Unrestricted...	(1,641,648)	(201,590)	91,219	74,860	75,108
Total business-type activities net assets............	$ (404,403)	$ 875,947	$ 1,896,300	$ 1,714,476	$ 1,388,560
Primary government:					
Invested in capital assets, net of related debt..	$ 35,611,170	$ 34,175,015	$ 31,016,641	$ 29,741,841	$ 28,079,901
Restricted..	1,783,401	1,717,627	2,650,933	2,707,295	2,177,079
Unrestricted...	(5,594,776)	(4,629,338)	(1,764,921)	(918,618)	(1,235,378)
Total primary government net assets.................	$ 31,799,795	$ 31,263,304	$ 31,902,653	$ 31,530,518	$ 29,021,602

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

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

Table 1

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

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2010
(Dollars in Thousands)

		2010	2009	2008	2007	2006
Expenses						
Governmental activities:						
General government		$ 1,109,142	$ 1,429,407	$ 1,232,088	$ 1,264,132	$ 1,039,513
Primary and secondary education		9,830,182	10,079,691	10,631,920	9,126,169	8,215,445
Higher education		4,232,267	3,951,862	4,207,410	4,500,010	3,472,024
Health and human services		16,809,253	16,172,213	14,951,585	14,117,426	13,491,119
Economic development		716,205	636,431	746,471	624,106	647,434
Environment and natural resources		564,771	717,666	753,909	672,726	676,049
Public safety, corrections, and regulation		2,693,212	2,741,308	2,627,007	2,465,974	2,304,900
Transportation		1,998,432	138,007	1,941,207	2,019,942	1,781,865
Agriculture		119,494	110,268	119,297	88,970	112,467
Interest on long-term debt		281,499	289,211	304,020	273,123	264,287
Total governmental activities expenses		38,354,457	36,266,064	37,514,914	35,152,578	32,005,103
Business-type activities:						
Unemployment Compensation		5,568,561	3,255,448	1,002,866	864,981	849,945
N.C. State Lottery	[2]	994,168	877,403	712,718	559,373	153,125
EPA Revolving Loan	[4]	30,940	7,868	12,454	14,228	11,414
N.C. Turnpike Authority	[6]	4,990	3,847	—	—	—
Regulatory commissions	[3]	35,843	37,644	34,791	31,144	28,526
Insurance programs		13,284	14,986	17,556	23,892	16,051
North Carolina State Fair		12,794	13,803	12,828	11,433	10,497
Other business-type activities		9,374	7,324	6,364	5,686	10,255
Total business-type activities expenses		6,669,954	4,218,323	1,799,577	1,510,737	1,079,813
Total primary government expenses		$ 45,024,411	$ 40,484,387	$ 39,314,491	$ 36,663,315	$ 33,084,916
Program Revenues:						
Governmental activities:						
Charges for services:						
Transportation		$ 705,025	$ 740,353	$ 777,059	$ 782,405	$ 725,311
Public safety, corrections, and regulation		511,912	510,159	501,837	429,824	411,188
General government		356,602	329,507	365,920	480,378	339,053
Other activities		502,204	535,100	536,419	467,769	512,449
Operating grants and contributions		15,838,014	14,005,529	12,301,356	12,026,012	11,503,844
Capital grants and contributions		711,433	1,035,742	826,646	758,910	914,090
Total governmental activities program revenues		18,625,190	17,156,390	15,309,237	14,945,298	14,405,935
Business-type activities:						
Charges for services:						
Unemployment Compensation		1,045,288	1,076,294	1,091,856	1,099,959	1,101,357
N.C. State Lottery	[2]	1,424,458	1,288,102	1,053,131	866,195	216,906
EPA Revolving Loan	[4]	19,874	17,370	17,297	16,400	15,237
Regulatory commissions	[3]	37,534	33,982	37,163	29,347	33,550
Insurance programs		16,320	17,208	16,991	13,901	14,860
North Carolina State Fair		12,639	12,520	15,029	11,617	12,581
Other business-type activities		8,678	8,365	6,498	5,887	7,973
Operating grants and contributions		3,251,109	1,110,849	83,695	106,000	64,085
Capital grants and contributions		7,771	41,398	6,589	142	258
Total business-type activities program revenues		5,823,671	3,606,088	2,328,249	2,149,448	1,466,807
Total primary government program revenues		$ 24,448,861	$ 20,762,478	$ 17,637,486	$ 17,094,746	$ 15,872,742
Net (expense) revenue						
Governmental activities		$ (19,729,267)	$ (19,109,674)	$ (22,205,677)	$ (20,207,280)	$ (17,599,168)
Business-type activities		(846,283)	(612,235)	528,672	638,711	386,994
Total primary government net expense		$ (20,575,550)	$ (19,721,909)	$ (21,677,005)	$ (19,568,569)	$ (17,212,174)

Table 2

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

Continued

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2010

(Dollars in Thousands)

		2010	2009	2008	2007	2006
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Individual income tax	[1]	$ 9,345,441	$ 8,661,565	$ 10,676,156	$ 10,739,562	$ 9,336,745
Corporate income tax		1,252,800	997,206	1,357,670	1,466,148	1,306,193
Sales and use tax		5,916,119	4,911,656	5,159,453	5,108,456	5,033,040
Gasoline tax		1,557,430	1,523,496	1,579,847	1,601,764	1,514,626
Franchise tax		904,651	799,113	738,741	671,151	628,029
Highway use tax		439,506	440,749	566,132	607,511	577,237
Insurance tax		506,990	500,438	505,936	487,081	442,297
Beverage tax		295,383	263,553	258,193	245,990	233,315
Inheritance tax		71,731	103,811	158,178	162,746	133,158
Tobacco products tax	[5]	278,406	242,071	249,664	241,687	—
Other tax		321,945	316,819	339,109	330,888	482,552
Tobacco settlement		145,539	175,838	168,583	144,075	140,969
Federal grants not restricted to specific programs		—	—	—	—	—
Unrestricted investment earnings		28,645	66,863	238,239	211,663	123,170
Miscellaneous		44,354	62,799	49,345	47,015	37,248
Contributions to permanent funds		3,101	3,248	3,894	3,928	4,674
Transfers		434,067	422,399	346,848	312,810	67,978
Total governmental activities		21,546,108	19,491,624	22,395,988	22,382,475	20,061,231
Business-type activities:						
Miscellaneous		—	—	—	15	4
Transfers		(434,067)	(422,399)	(346,848)	(312,810)	(67,978)
Total business-type activities		(434,067)	(422,399)	(346,848)	(312,795)	(67,974)
Total primary government		$ 21,112,041	$ 19,069,225	$ 22,049,140	$ 22,069,680	$ 19,993,257
Change in Net Assets						
Governmental activities		$ 1,816,841	$ 381,950	$ 190,311	$ 2,175,195	$ 2,462,063
Business-type activities		(1,280,350)	(1,034,634)	181,824	325,916	319,020
Total primary government		$ 536,491	$ (652,684)	$ 372,135	$ 2,501,111	$ 2,781,083

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

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

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

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

[4] Prior to 2003 EPA Revolving Loan was classified as Special Revenue Funds.

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

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

Table 2

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

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2002-2010

(Dollars in Thousands)

	2010	2009	2008	2007	2006	2005
General Fund						
Reserved	$ 224,358	$ 189,288	$ 172,909	$ 208,932	$ 155,948	$ 172,633
Unreserved	(338,526)	(966,861)	1,505,230	2,397,786	1,810,452	(251,442)
Total General Fund [1]	$ (114,168)	$ (777,573)	$ 1,678,139	$ 2,606,718	$ 1,966,400	$ (78,809)
All Other Governmental Funds						
Reserved	$ 1,194,418	$ 1,209,650	$ 1,182,723	$ 1,014,757	$ 951,701	$ 911,966
Unreserved, reported in:						
Special revenue funds	2,321,665	2,337,370	2,517,529	2,524,643	2,204,146	2,170,533
Capital projects funds	10,311	(2,738)	280,939	224,991	115,060	44,237
Permanent funds	7,141	1,907	2,312	1,598	1,518	2,645
Total all other governmental funds	$ 3,533,535	$ 3,546,189	$ 3,983,503	$ 3,765,989	$ 3,272,425	$ 3,129,381

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the changes in fund balance information is not available before 2002.

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

Table 3

2004	2003	2002
$ 197,448	$ 166,172	$ 227,767
(393,735)	(333,127)	(576,318)
$ (196,287)	$ (166,955)	$ (348,551)
$ 847,174	$ 672,653	$ 1,099,039
2,260,374	2,041,905	2,254,227
110,395	84,677	73,751
2,380	6,903	226
$ 3,220,323	$ 2,806,138	$ 3,427,243

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2001-2010
(Dollars in Thousands)

		2010	2009	2008	2007	2006
Revenues						
Taxes	[3]	$ 20,866,244	$ 18,752,674	$ 21,583,521	$ 21,660,719	$ 19,848,465
Federal funds		13,688,504	13,387,611	12,096,354	11,519,927	11,315,722
Local funds		218,162	349,303	527,325	725,542	610,501
Investment earnings		198,633	95,288	620,829	669,297	384,014
Interest earnings on loans		4,543	4,989	5,156	5,639	5,405
Sales and services		263,010	279,025	285,848	264,081	260,538
Rental and lease of property		22,122	25,398	27,737	28,722	25,982
Fees, licenses and fines		1,553,923	1,602,471	1,593,893	1,525,928	1,405,569
Tobacco settlement		146,358	175,187	159,954	142,825	136,453
Contributions, gifts, and grants		85,865	137,537	140,575	155,958	118,936
Funds escheated		70,381	27,399	74,743	214,500	108,075
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		2,391,851	1,164,674	N/A	N/A	N/A
Miscellaneous		164,685	184,839	167,449	122,161	161,052
Total revenues	[1]	39,674,281	36,186,395	37,283,384	37,035,299	34,380,712
Expenditures						
Current:						
General government		962,402	1,299,637	1,167,090	1,102,512	963,899
Education	[2]	N/A	N/A	N/A	N/A	N/A
Primary and secondary education	[2]	9,850,462	10,111,797	9,879,602	9,087,905	8,211,998
Higher education	[2]	4,225,806	3,951,689	4,207,164	4,405,767	3,471,604
Health and human services		16,816,099	16,222,160	14,918,068	14,203,474	13,318,071
Economic development		715,038	634,369	747,728	623,038	643,510
Environment and natural resources		554,628	699,273	689,119	662,296	626,442
Public safety, corrections, and regulation		2,659,683	2,681,833	2,629,567	2,467,763	2,291,596
Transportation		3,253,258	3,266,494	3,473,718	3,296,301	3,219,549
Agriculture		112,902	111,506	117,380	92,062	110,626
Retiree tax judgements		—	—	—	—	—
Capital outlay		341,058	369,326	346,764	451,716	270,882
Debt service:						
Principal retirement		498,563	474,323	427,550	417,807	367,946
Interest and fees		322,287	326,287	329,813	306,410	288,088
Debt issuance costs		1,310	3,031	2,141	2,456	1,645
Total expenditures	[1]	40,313,496	40,151,725	38,935,704	37,119,507	33,785,856
Excess revenues over (under) expenditures		(639,215)	(3,965,330)	(1,652,320)	(84,208)	594,856
Other Financing Sources (Uses)						
Bonds issued		487,700	—	—	502,745	370,000
Special Indebtedness issued		—	600,000	275,000	300,000	—
GARVEE bonds issued		242,520	—	287,565	—	—
Refunding bonds issued		371,920	—	—	84,385	—
Other debt issued		9,098	1,533	7,425	2,897	30,688
Premium on debt issued		140,876	31,371	21,843	40,867	16,338
Discount on debt issued		—	—	—	—	—
Payments to refunded bond escrow agent		(435,870)	—	—	(85,519)	—
Capital leases		—	—	—	799	26,745
Sale of capital assets		11,994	13,079	29,570	15,898	20,131
Insurance recoveries		7,414	8,568	7,317	5,700	6,537
Transfers in		2,330,816	2,727,741	2,567,141	2,340,937	1,784,222
Transfers out		(1,876,502)	(2,309,101)	(2,223,438)	(2,030,162)	(1,718,585)
Total other financing sources (uses)		1,289,966	1,073,191	972,423	1,178,547	536,076
Net change in fund balances		$ 650,751	$ (2,892,139)	$ (679,897)	$ 1,094,339	$ 1,130,932
Debt service as a percentage of noncapital expenditures		2.16%	2.12%	2.07%	2.06%	2.08%

All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent funds. Years prior to 2002 do not include permanent funds.

Table 4

2005	2004	2003	2002	2001
$ 17,618,730	$ 15,961,629	$ 15,394,024	$ 14,894,796	$ 15,147,177
11,287,454	10,089,075	8,672,065	8,459,344	7,924,893
767,067	657,954	586,638	702,076	760,607
292,406	160,846	320,023	335,082	487,824
5,664	5,801	7,165	47,421	5,789
235,894	210,161	184,739	194,548	97,686
38,585	27,848	22,175	24,359	43,046
1,218,431	1,035,303	915,380	864,912	896,435
148,641	146,452	173,256	175,836	140,272
108,450	150,731	90,486	93,802	122,871
49,684	55,330	41,369	90,181	N/A
—	136,859	136,859	N/A	N/A
N/A	N/A	N/A	N/A	N/A
146,529	196,937	147,777	145,887	165,349
31,917,535	28,834,926	26,691,956	26,028,244	25,791,949
754,175	711,327	691,267	809,398	1,035,440
N/A	N/A	N/A	N/A	6,964,812
7,713,265	7,223,143	6,863,338	6,802,662	N/A
3,576,766	3,140,698	2,813,629	2,519,624	N/A
13,376,364	11,722,721	10,583,184	10,398,386	9,617,423
622,000	532,674	484,298	498,644	453,931
579,853	581,726	534,405	574,871	459,170
2,123,837	2,073,338	1,998,576	2,070,166	1,948,423
3,511,161	3,389,042	2,967,551	2,992,187	2,820,290
82,508	81,488	81,857	122,337	88,623
—	—	—	—	58,679
313,932	385,506	104,379	126,011	155,228
303,818	235,792	168,009	180,398	151,120
241,936	185,350	152,110	147,580	130,343
7,454	4,830	1,410	734	N/A
33,207,069	30,267,635	27,444,013	27,242,998	23,883,482
(1,289,534)	(1,432,709)	(752,057)	(1,214,754)	1,908,467
1,075,140	1,377,560	711,600	605,000	680,000
188,385	283,955	17,500	—	—
—	—	—	—	—
959,665	326,710	556,350	—	—
12,686	17,597	—	4,832	—
210,116	137,256	25,017	14,733	—
—	—	(254)	—	—
(1,059,663)	(346,915)	(558,444)	—	—
212	—	150	216	—
14,674	10,105	8,882	12,570	—
—	—	—	—	—
1,754,448	1,566,520	1,587,388	1,478,308	1,415,317
(1,760,801)	(1,557,208)	(1,583,075)	(1,414,418)	(1,427,607)
1,394,862	1,815,580	765,114	701,241	667,710
$ 105,328	$ 382,871	$ 13,057	$ (513,513)	$ 2,576,177
1.78%	1.51%	1.25%	1.30%	1.26%

[1] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for NonexchangeTransactions.* This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

[2] Fiscal years prior to 2002 do not reflect the implementation of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (as amended by Statement No. 37),
This statement establishes new financial reporting requirements for state and local governments throughout the United States.

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

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2001-2010

(Dollars in Thousands)

		2010	2009	2008	2007	2006
TAX REVENUES						
Individual income tax	[2]	$ 9,343,303	$ 8,658,635	$ 10,672,362	$ 10,737,494	$ 9,493,714
Corporate income tax		1,245,515	941,509	1,265,654	1,357,454	1,208,356
Sales and use tax		5,871,166	4,872,318	5,125,674	5,078,997	5,007,567
Franchise tax		904,959	797,079	739,947	669,235	628,665
Beverage tax		295,349	263,553	257,393	245,430	232,987
Insurance tax		495,059	483,756	492,699	475,546	431,729
Piped natural gas		59,693	59,490	58,413	61,345	58,397
Intangible tax		—	—	—	—	—
Inheritance tax		71,901	104,266	158,789	161,604	133,248
Soft drink tax		—	—	—	—	—
Tobacco products tax		278,296	242,071	249,664	241,687	187,566
License tax		41,338	37,716	55,293	48,137	46,035
Gift tax		12,036	12,294	17,361	15,669	16,251
Manufacturing tax		32,125	32,044	37,661	39,132	11,992
Other taxes		23,943	21,625	16,623	16,640	15,579
Total tax revenues		18,674,683	16,526,356	19,147,533	19,148,370	17,472,086
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		12,825,403	11,970,322	10,843,765	10,312,318	9,905,879
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		1,961,425	1,155,174	—	—	—
		14,786,828	13,125,496	10,843,765	10,312,318	9,905,879
Local Funds:						
Departmental revenues		153,234	304,270	486,536	665,532	574,300
Investment Earnings:						
Income from General Fund investments		36,877	103,703	234,478	208,955	122,405
Income from securities lending	[3]	49,733	(46,275)	143,487	216,072	133,098
Departmental revenues		3,264	4,788	7,829	8,059	7,357
Other investment earnings		—	3	39	66	44
		89,874	62,219	385,833	433,152	262,904
Interest Earnings on Loans:						
Departmental revenues		202	261	113	399	—
Sales and Services:						
Departmental revenues		97,323	104,925	102,307	94,664	94,994
Other non-tax revenues		116	143	138	171	184
		97,439	105,068	102,445	94,835	95,178
Rental and Lease of Property:						
Proceeds from rental and lease of property		67	83	98	41	57
Departmental revenues		8,810	8,773	7,908	8,392	7,885
		8,877	8,856	8,006	8,433	7,942
Fees, Licenses and Fines:						
Court fines and fees		216,772	190,995	198,520	159,583	158,646
Secretary of State service fees		81,221	64,202	62,035	58,046	55,976
Banking and investment fees		5,955	5,709	5,862	5,466	5,386
Self insurer fees (Industrial Commission)		15,497	15,230	14,791	14,292	14,269
Probation supervision fees		11,892	16,758	16,892	16,629	16,471
Department of Insurance fees		38,271	43,965	42,872	27,991	25,990
DWI service and restoration fees		7,638	9,310	9,441	8,782	8,420
Departmental revenues		212,260	184,952	164,813	160,006	157,024
Fines from tax collection activity		78,090	85,135	93,181	69,758	53,663
Other non-tax revenues		6,912	5,340	6,583	4,944	5,173
		674,508	621,596	614,990	525,497	501,018
Tobacco settlement						
Tobacco settlement		146,358	175,187	159,954	142,825	136,453
Contributions, Gifts and Grants:						
Departmental revenues		20,391	16,179	16,054	17,207	17,632
Other non-tax revenues		—	—	—	—	1
		20,391	16,179	16,054	17,207	17,633
Miscellaneous:						
Local sales and use tax administration		14,603	15,613	16,982	16,979	14,356
Sales tax refunds		2,134	1,906	3,303	4,124	3,014
Departmental revenues		117,511	119,107	106,517	56,733	113,171
Other non-tax revenue		6,517	22,220	1,566	1,508	1,302
		140,765	158,846	128,368	79,344	131,843
Total non-tax revenues		16,118,476	14,577,978	12,746,064	12,279,542	11,633,150
Total Revenues	[1], [2]	$ 34,793,159	$ 31,104,334	$ 31,893,597	$ 31,427,912	$ 29,105,236

Table 5

2005	2004	2003	2002	2001
$ 8,206,026	$ 7,404,956	$ 7,126,655	$ 7,219,794	$ 7,605,542
1,065,374	699,441	922,936	548,046	712,161
4,587,542	4,268,292	4,020,923	3,766,285	3,429,532
613,093	560,502	583,781	592,259	746,687
220,782	213,271	198,848	200,593	198,646
431,664	423,405	408,873	340,785	305,791
60,739	64,327	63,219	64,852	64,854
—	—	—	—	4
134,419	129,579	112,605	104,799	123,094
—	—	—	2	48
43,361	44,126	41,899	41,500	42,137
44,219	42,418	44,565	44,432	43,874
18,924	16,615	19,328	13,392	20,254
—	—	—	—	—
14,114	13,571	12,508	17,479	11,152
15,440,257	13,880,503	13,556,140	12,954,218	13,303,776
9,755,067	8,769,925	7,564,627	7,266,016	6,777,503
—	136,859	136,859	—	—
—	—	—	—	—
9,755,067	8,906,784	7,701,486	7,266,016	6,777,503
731,368	636,900	562,498	682,310	737,063
75,669	76,415	103,786	129,924	163,479
48,463	21,305	30,604	44,659	111,490
8,539	2,613	4,745	4,217	10,022
14	3	5	9,531	320
132,685	100,336	139,140	188,331	285,311
—	—	—	—	—
85,592	76,010	61,316	61,031	68,736
168	182	198	228	405
85,760	76,192	61,514	61,259	69,141
4,304	102	92	546	573
7,072	6,620	6,140	6,556	16,989
11,376	6,722	6,232	7,102	17,562
142,798	138,878	126,381	109,575	111,012
46,975	40,638	36,807	31,357	29,584
5,165	4,758	4,485	4,336	10,914
14,128	13,777	13,512	6,795	7,098
16,476	16,748	14,339	10,833	10,453
24,526	25,147	21,198	22,854	20,210
8,398	8,709	7,332	5,822	5,706
200,452	62,578	41,747	41,540	40,422
—	—	—	—	—
3,818	4,388	4,161	4,124	4,065
462,736	315,621	269,962	237,236	239,464
148,641	146,452	173,256	175,836	140,272
34,375	50,140	29,702	33,658	53,425
105	234	1	30	—
34,480	50,374	29,703	33,688	53,425
13,932	13,989	12,495	11,774	11,568
10,253	14,456	7,908	11,120	11,494
84,927	123,852	95,753	89,489	123,230
1,253	2,083	315	6,307	914
110,365	154,380	116,471	118,690	147,206
11,472,478	10,393,761	9,060,262	8,770,468	8,466,947
$ 26,912,735	$ 24,274,264	$ 22,616,402	$ 21,724,686	$ 21,770,723

[1] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for Nonexchange Transactions*. This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

[2] 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).

[3] 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.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 1999-2008

(Dollars in thousands)

		2008	2007	2006	2005	2004
Manufacturing		$ 33,198,948	$ 33,952,935	$ 32,935,416	$ 32,568,557	$ 32,396,449
Retail trade		16,434,203	16,572,768	15,824,997	15,247,734	14,405,203
Services		80,128,619	76,435,821	71,395,713	65,206,678	61,288,110
Agricultural, forestry, fishing, etc		670,202	659,746	653,293	603,690	595,838
Government		49,870,025	46,513,595	42,936,344	40,511,663	37,711,849
Construction		15,300,469	17,119,284	16,676,066	14,995,919	13,783,354
Wholesale trade		13,308,861	13,100,019	12,139,388	11,243,020	10,558,552
Transportation and warehousing		7,109,046	6,959,969	6,826,584	6,660,176	6,447,742
Finance and insurance		14,623,375	14,761,394	14,383,089	12,593,724	11,515,594
Mining		298,666	353,148	345,095	294,567	254,654
Utilities	[1]	1,417,423	1,366,715	1,360,334	1,265,031	1,310,832
Information	[1]	5,999,254	5,846,218	5,626,640	5,418,024	5,322,364
Real estate and rental and leasing		3,282,651	3,509,920	3,838,434	3,829,563	3,714,865
Other		84,312,078	78,871,660	72,616,206	67,290,866	61,388,934
Total		$ 325,953,820	$ 316,023,192	$ 297,557,599	$ 277,729,212	$ 260,694,340
Average effective rate [2]:						
Individual income tax		3.3%	3.4%	3.2%	3.0%	2.8%

[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 2009 & 2010 is not available.)

Table 6

2003	2002	2001	2000	1999
$ 32,161,055	$ 32,375,674	$ 33,266,256	$ 35,667,363	$ 34,033,154
13,967,967	13,516,856	13,197,763	16,540,822	15,666,180
56,777,852	54,700,974	51,484,324	42,447,628	38,472,616
552,685	543,807	539,090	1,004,911	948,544
35,272,127	32,923,320	31,293,332	29,959,387	28,042,404
12,829,904	12,664,406	13,197,476	13,046,397	11,874,761
9,683,219	9,253,121	8,838,791	10,073,891	9,580,665
5,952,517	5,738,970	6,069,310	9,741,907	9,109,294
10,916,275	10,414,855	9,759,381	13,706,858	11,730,362
221,600	216,001	253,650	261,709	256,029
1,239,668	1,218,858	—	—	—
5,159,965	5,034,451	—	—	—
3,653,635	3,498,745	3,473,445	3,151,758	2,513,694
55,312,348	54,594,207	61,459,218	49,925,576	47,050,384
$ 243,700,817	$ 236,694,245	$ 232,832,036	$ 225,528,207	$ 209,278,087
2.9%	3.1%	3.3%	3.1%	3.1%

Individual Income Tax Filers and Liability - Calendar Years 1999 and 2008
Individual Income Tax Rates - Calendar Years 2001-2010

Individual Income Tax Filers and Liability by Income Level

North Carolina Taxable Income	Calendar Year 2008				Calendar Year 1999			
	Number of Returns	% of Total	Tax Liability	% of Total	Number of Returns	% of Total	Tax Liability	% of Total
0 to $15,000	2,084,533	50.0%	$ 426,622,945	4.6%	1,864,822	53.0%	$ 465,566,500	7.0%
$15,001 to $25,000	555,337	13.3%	624,021,897	6.7%	512,479	14.5%	595,962,479	9.1%
$25,001 to $50,000	759,376	18.2%	1,687,182,280	18.2%	675,494	19.0%	1,499,380,068	23.0%
$50,001 to $75,000	353,287	8.5%	1,388,636,679	15.0%	252,289	7.1%	983,148,394	15.1%
$75,001 to $100,000	170,675	4.1%	972,970,321	10.5%	93,061	2.6%	531,216,634	8.1%
$100,001 to $200,000	180,971	4.3%	1,661,964,623	17.9%	91,581	2.6%	844,701,201	13.0%
$200,001 and up	68,352	1.6%	2,519,523,885	27.1%	41,802	1.2%	1,601,578,192	24.7%
	4,172,531	100.0%	$ 9,280,922,630	100.0%	3,531,528	100.0%	$ 6,521,553,468	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 2008 is the most recent year for which data are available.

Table 7

Individual Income Tax Rates - Last 10 Years

Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 4
2001-2006				
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	$100,001-$200,000	> $200,000
Tax rate	6%	7%	7.75%	8.25%
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	$50,001-$100,000	> $100,000
Tax rate	6%	7%	7.75%	8.25%
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	$80,001-$160,000	> $160,000
Tax rate	6%	7%	7.75%	8.25%
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	$60,001-$120,000	> $120,000
Tax rate	6%	7%	7.75%	8.25%
2007				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	$100,001-$200,000	> $200,000
Tax rate	6%	7%	7.75%	8%
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	$50,001-$100,000	> $100,000
Tax rate	6%	7%	7.75%	8%
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	$80,001-$160,000	> $160,000
Tax rate	6%	7%	7.75%	8%
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	$60,001-$120,000	> $120,000
Tax rate	6%	7%	7.75%	8%
2008				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	> $100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	> $50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	> $80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	> $60,000	
Tax rate	6%	7%	7.75%	
2009-2010				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 3 Sur tax**
Married - Joint:			> $100,000	
Taxable income	$1-$21,250	$21,251-$100,000	up to $250,000 7.75%	**2%**
Tax rate	6%	7%	> 250,000	**3%**
Married - Separate:			> $50,000	
Taxable income	$1-$10,625	$10,626-$50,000	up to $125,000 7.75%	**2%**
Tax rate	6%	7%	>125,000	**3%**
Head of Household:			> $80,000	
Taxable income	$1-$17,000	$17,001-$80,000	up to $200,000 7.75%	**2%**
Tax rate	6%	7%	>200,000	**3%**
Single:			> $60,000	
Taxable income	$1-$12,750	$12,751-$60,000	up to $150,000 7.75%	**2%**
Tax rate	6%	7%	>150,000	**3%**

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

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

Source: North Carolina Department of Revenue

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2006-2010 *Table 8*

(Dollars in Thousands)

	2010	2009	2008	2007	2006
General merchandise	$ 26,700,373	$ 27,281,044	$ 27,545,474	$ 27,814,179	$ 24,141,458
Food	19,986,254	19,982,767	20,427,943	18,856,362	17,333,935
Lumber & building material	9,896,788	11,728,029	15,125,717	15,625,168	14,749,083
Automotive	5,371,476	5,365,726	5,782,027	6,138,450	5,416,622
1%, 2%, 2.5% and 3% tax group	411,092	653,686	878,522	1,350,932	4,551,097
Furniture	3,442,183	3,854,662	4,746,011	4,733,484	4,387,923
Apparel	3,756,305	3,628,009	3,901,540	3,753,902	3,481,573
Unclassified	25,056,266	27,197,294	29,529,959	28,314,743	27,490,165
Total	$ 94,620,737	$ 99,691,217	$ 107,937,193	$ 106,587,220	$ 101,551,856
Direct sales tax rate	5.75%	4.50%	4.25%	4.25%	4.50%

1%, 2%, 2.5% and 3% tax group includes manufactured homes, airplanes, boats, modular homes, farm mill, laundry machinery, fuel to farmers, manufacturers and laundries.

Information prior to 2006 is not available.

Source: North Carolina Department of Revenue

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2001 & 2010 *Table 9*

	2010		2001	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise	$ 1,424,876,405	23.61%	$ 739,689,728	21.40%
Food	1,055,800,040	17.50%	544,829,232	15.79%
Utilities	1,017,975,473	16.87%	382,383,571	11.08%
Lumber & building material	524,963,397	8.70%	398,824,508	11.56%
Automotive	296,555,501	4.91%	200,666,251	5.81%
Furniture	183,294,827	3.04%	147,154,473	4.26%
Apparel	201,107,209	3.33%	103,360,801	3.00%
Farming	18,631	0.00%	54,284,377	1.60%
Unclassified	1,330,232,512	22.04%	879,966,505	25.50%
Total	$ 6,034,823,995	100.00%	$ 3,451,159,446	100.00%
General state sales tax rate	5.75%		4.00%	

Recent Significant Sales Tax Rate and Base Changes

2001-02	Effective October 1, 2001, the $1,500 tax limit applicable to short-term leases of noncommercial vehicles was repealed. Effective October 16, 2001, the general sales rate increased from 4% to 4.5%. Effective December 1, 2001, sales of spirituous liquor, other than mixed beverages, became subject to a 6% State sales and use tax. Effective January 1, 2002, gross receipts of direct-to-home satellite service to subscribers in this State became subject to a 5% State sales tax. Effective January 1, 2002, gross receipts derived from providing telecommunications services became subject to a 6% State sales and use tax. [Prior to the law change, local telecommunications services were subject to a 3% State sales tax rate and a 3.22% utility franchise tax rate; interstate long distance calls were taxed at 6.5% and interstate long distance calls were exempt.]
2003-04	Effective July 1, 2003, all sales of soft drinks became subject to both the State and local rates. Effective January 1, 2004, sales of closed container soft drinks sold through vending machines were taxed on only 50% of the sale price. Effective January 1, 2004, candy was exempted from the State tax and subject to only the 2% local tax. Effective for sales made on or after January 1, 2004, modular homes became subject to a 2.5% State sales and use tax rate.
2005-06	Effective October 1, 2005, all sales of candy became subject to the combined general State and county tax rate. Effective October 1, 2005, the sales and use tax imposed on telecommunications, direct-to-home satellite services, and spiritous liquor increased to 7%. Effective January 1, 2006, a 7% State sales and use tax was imposed on cable services, and satellite digital audio radio became subject to both the State general rate of tax and local rates.
2006-07	Effective June 29, 2007, the combined rate is the State's general rate 4.25% plus the sum of the rates of local tax authorized for every county in the State 2.5%. Effective January 1, 2007, sales of intermodal cranes, intermodal hostler trucks and railroad locomotives to the owner or lessee of an eligible railroad intermodal facility was exempted. Sales to the owner or lessee of an eligible railroal intermodal facility of sales taxes on building supplies, fixtures, and equipment that become a part of the real property of the facility was exempted. Effective June 29, 2007, additional 0.25% Sales general and use tax rate, scheduled to be repealed for sales made on or after July 1, 2007, was extended for one month.
2007-08	Effective July 1, 2007, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%. Effective July 1, 2007, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds. Effective July 31, 2007, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75%. Effective October 1, 2007, Tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%. Effective October 1, 2007, Tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Privilege tax sold to manufacturing industry decreased from 1% to 0.7%. Bundled transaction defined to remain compliant with SSTA. Baler twine sold to farmers and bread sold at a bakery thrift store was exempted. State began three year phase- in assumption of the financial nonfederal, nonadministrative Medicaid responsibility for counties that include a 1/2% sales tax rate exchange between local and state governments as well as various measures to insure the local governments are held harmless (protected from revenue loss) as a result of the Medicaid swap legislation. Effective April 1, 2008 Combined general rate raised from 6.75% to 7%.
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.
2009-2010	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.

Source: North Carolina Department of Revenue

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2001-2010

(Dollars in Thousands)

		2010	2009	2008	2007	2006
Governmental activities:						
General obligation bonds		$ 5,270,660	$ 5,169,265	$ 5,533,760	$ 5,902,330	$ 5,738,815
Lease-purchase revenue bonds		215,045	225,045	235,045	245,045	255,045
Revenue bonds		—	—	—	—	8,800
Certificates of participation		872,600	919,585	965,880	727,640	454,060
Limited obligation bonds		580,705	600,000	—	—	—
GARVEE bonds		434,825	241,820	287,565	—	—
Notes payable		30,642	27,663	33,187	37,276	62,298
Capital leases payable		22,815	23,833	24,659	25,740	26,879
Total Governmental Activities		7,427,292	7,207,211	7,080,096	6,938,031	6,545,897
Business-type activities:						
Revenue bonds	(a), (b)	622,758	—	—	—	—
Notes payable	(a), (b)	68,800	—	—	—	—
Total Business-type Activities		691,558	—	—	—	—
Total Primary Government		$ 8,118,850	$ 7,207,211	$ 7,080,096	$ 6,938,031	$ 6,545,897
Debt as a Percentage of Personal Income		N/A	2.23%	2.17%	2.20%	2.20%
Amount of Debt per Capita		$ 853	$ 768	$ 766	$ 765	$ 738

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) For Fiscal Year 2010, North Carolina Turnpike Authority is a major enterprise fund. Prior to 2010, it was a component unit.

Table 10

	2005	2004	2003	2002	2001
	$ 5,698,535	$ 4,982,860	$ 4,066,990	$ 3,467,325	$ 3,038,693
	265,045	218,405	—	—	—
	—	—	—	—	—
	475,170	301,165	17,500	—	—
	—	—	—	—	—
	—	—	—	—	—
	34,007	25,008	9,629	11,753	7,870
	330	304	322	216	—
	6,473,087	5,527,742	4,094,441	3,479,294	3,046,563
	9,070	9,325	9,570	9,905	9,905
	1,569	—	—	—	—
	10,639	9,325	9,570	9,905	9,905
	$ 6,483,726	$ 5,537,067	$ 4,104,011	$ 3,489,199	$ 3,056,468
	2.33%	2.12%	1.68%	1.47%	1.31%
	$ 748	$ 649	$ 488	$ 420	$ 373

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2001-2010 *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
2010	$5,270,660	$ 215,045	$ 872,600	$ 580,705	$ 434,825	$7,373,835	$ 774.81
2009	5,169,265	225,045	919,585	600,000	241,820	7,155,715	762.80
2008	5,533,760	235,045	965,880	—	287,565	7,022,250	759.40
2007	5,902,330	245,045	727,640	—	—	6,875,015	758.49
2006	5,738,815	255,045	454,060	—	—	6,447,920	727.18
2005	5,698,535	265,045	475,170	—	—	6,438,750	742.69
2004	4,982,860	218,405	301,165	—	—	5,502,430	644.97
2003	4,066,990	—	1,750	—	—	4,068,740	483.43
2002	3,467,326	—	—	—	—	3,467,326	416.92
2001	3,042,570	—	—	—	—	3,042,570	370.89

Note: Population data can be found in table 15.

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SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2010

(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 2000A 9-1-00 5.0-5.1%	Public Improvement Series 2001A 3-1-01 4.5-5.0%	Public Improvement Series 2002A 3-1-02 4.0-5.5%	Public Improvement Series 2002D 5-1-02 Variable to 18%
Bonds Authorized and Issued:							
Ch. 631, 1995 session law....	$ 450,000	$ 450,000	$ —	$ 295,000	$ 100,000	$ —	$ 55,000
General Statute Ch. 142........	817,965	817,965	25,905	—	—	—	—
Ch. 590, 1995 session law....	400,000	—	—	—	—	—	—
Ch. 132, 1998 session law....	366,555	366,555	—	5,000	30,000	204,400	—
Ch. 3, 2000 session law........	2,122,800	2,122,800	—	—	250,000	—	33,750
2004 session law..................	3,400,014	2,799,022	—	—	—	—	—
Total bonds authorized and issued........................	7,557,334	6,556,342	25,905	300,000	380,000	204,400	88,750
Bonds retired.........................	1,622,214	1,362,145	14,055	108,000	144,000	154,400	—
Partial defeasances..............	664,460	451,460	—	180,000	211,460	—	—
Bonds outstanding—6/30/2010..........	$ 5,270,660	$ 4,742,737	$ 11,850	$ 12,000	$ 24,540	$ 50,000	$ 88,750
Bond Maturity As Follows:							
2010-11............................	$ 379,325	$ 320,452	$ 2,025	$ 12,000	$ 16,000	$ 25,000	$ —
2011-12............................	379,940	323,371	2,000	—	1,265	25,000	—
2012-13............................	391,490	329,843	1,980	—	1,265	—	6,250
2013-14............................	391,684	329,267	1,965	—	1,265	—	6,250
2014-15............................	390,955	344,279	1,950	—	1,265	—	6,250
2015-16............................	391,005	353,422	1,930	—	1,265	—	6,250
2016-17............................	388,690	336,904	—	—	2,215	—	6,250
2017-18............................	392,530	345,663	—	—	—	—	10,750
2018-19............................	393,746	346,813	—	—	—	—	23,250
2019-20............................	359,560	300,988	—	—	—	—	18,750
2020-21............................	279,170	279,170	—	—	—	—	4,750
2021-22............................	260,180	260,180	—	—	—	—	—
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.......	$ 5,270,660	$ 4,742,737	$ 11,850	$ 12,000	$ 24,540	$ 50,000	$ 88,750

Table 12

Payable from General Fund Revenues

Public Improvement Series 2002E 5-1-02 Variable to 18%	Public Improvement Series 2002F 5-1-02 Variable to 18%	Public Improvement Series 2002G 5-1-02 Variable to 18%	Clean Water Series 2002A 12-1-02 2.25 - 5.0%	Refunding Series 2002A 12-1-02 2% - 5.25%	Refunding Series 2002B 12-12-02 Variable to 20%	Refunding Series 2002C 12-12-02 Variable to 20%	Refunding Series 2002D 12-12-02 Variable to 20%	Refunding Series 2002E 12-12-02 Variable to 20%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	56,480	100,000	100,000	100,000	100,000
—	—	—	—	—	—	—	—	—
—	—	—	18,800	—	—	—	—	—
88,750	88,750	88,750	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
88,750	88,750	88,750	18,800	56,480	100,000	100,000	100,000	100,000
—	—	—	1,545	46,105	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 88,750	$ 88,750	$ 88,750	$ 17,255	$ 10,375	$ 100,000	$ 100,000	$ 100,000	$ 100,000
$ —	$ —	$ —	$ 270	$ 10,375	$ —	$ —	$ —	$ —
—	—	—	750	—	4,520	4,520	4,520	4,520
6,250	6,250	6,250	1,815	—	10,920	10,920	10,920	10,920
6,250	6,250	6,250	1,795	—	10,815	10,815	10,815	10,815
6,250	6,250	6,250	1,775	—	10,700	10,700	10,700	10,700
6,250	6,250	6,250	2,245	—	13,385	13,385	13,385	13,385
6,250	6,250	6,250	510	—	3,520	3,520	3,520	3,520
10,750	10,750	10,750	4,915	—	27,975	27,975	27,975	27,975
23,250	23,250	23,250	3,180	—	18,165	18,165	18,165	18,165
18,750	18,750	18,750	—	—	—	—	—	—
4,750	4,750	4,750	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 88,750	$ 88,750	$ 88,750	$ 17,255	$ 10,375	$ 100,000	$ 100,000	$ 100,000	$ 100,000

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2010

(Dollars in Thousands)

Payable from General Fund Revenues

	Refunding Series 2002F 12-12-02 Variable to 20%	Public Improvement Series 2003A 3-1-03 2.0% - 5.25%	Public Improvement Series 2003B 4-1-03 2.0-5.0%	Refunding Series 2003E 8-1-03 4%-5%	Public Improvement Series 2004A 3-1-04 2%-5.25%	Capital Improvement Refunding Series 2004 9-29-04 4%-5.5%	Public School Refunding Series 2004 9-29-04 5%
Bonds Authorized and Issued:							
Ch. 631, 1995 session law....	$ —	$ —	$ —	$ —	$ —	$ —	$ —
General Statute Ch. 142........	99,870	—	—	235,710	—	—	—
Ch. 590, 1995 session law....	—	—	—	—	—	—	—
Ch. 132, 1998 session law....	—	38,355	—	—	—	—	—
Ch. 3, 2000 session law........	—	281,645	283,255	—	707,900	—	—
2004 session law..................	—	—	—	—	—	59,275	155,245
Total bonds authorized and issued........................	99,870	320,000	283,255	235,710	707,900	59,275	155,245
Bonds retired.........................	—	51,000	48,300	159,650	95,000	47,800	93,245
Partial defeasances...............	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2010............................	$ 99,870	$ 269,000	$ 234,955	$ 76,060	$ 612,900	$ 11,475	$ 62,000
Bond Maturity As Follows:							
2010-11............................	$ —	$ 13,000	$ 13,000	$ 27,785	$ 25,000	$ 11,475	$ 31,055
2011-12............................	4,500	13,000	13,000	27,855	25,000	—	30,945
2012-13............................	10,915	13,000	13,000	20,420	25,000	—	—
2013-14............................	10,795	13,000	13,000	—	25,000	—	—
2014-15............................	10,690	13,000	13,000	—	25,000	—	—
2015-16............................	13,370	13,000	13,000	—	25,000	—	—
2016-17............................	3,525	13,000	13,000	—	25,000	—	—
2017-18............................	27,950	13,000	13,000	—	25,000	—	—
2018-19............................	18,125	16,500	18,000	—	25,000	—	—
2019-20............................	—	16,500	30,000	—	65,000	—	—
2020-21............................	—	16,500	30,000	—	65,000	—	—
2021-22............................	—	16,500	30,000	—	65,000	—	—
2022-23............................	—	16,500	22,955	—	65,000	—	—
2023-24............................	—	16,500	—	—	65,000	—	—
2024-25............................	—	16,500	—	—	62,900	—	—
2025-26............................	—	16,500	—	—	—	—	—
2026-27............................	—	16,500	—	—	—	—	—
2027-28............................	—	16,500	—	—	—	—	—
2028-29............................	—	—	—	—	—	—	—
2029-30............................	—	—	—	—	—	—	—
Total Bonds Outstanding.......	$ 99,870	$ 269,000	$ 234,955	$ 76,060	$ 612,900	$ 11,475	$ 62,000

Table 12

Payable from General Fund Revenues

Public Improvement Refunding Series 2004 9-29-04 3%-5.5%	Public Improvement Series 2005A 1-12-05 4%-5.5%	Refunding Series 2005A 1-12-05 3%-5%	Refunding Series 2005B 6-29-05 5%	Clean Water Series 2006A 3-15-06 3.875%-5.5%	Higher Education Series 2006A 6-14-06 4.25%-5%	Public Improvement Series 2007A 3-1-07 4.125%-5.5%	Refunding Series 2007B 5-9-07 4%-4.5%	Refunding Series 2009A 10-20-09 3.5%-5%	Public Improvement Series 2010A 4-14-10 4%-5%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	70,000	—	—	—	—	—
—	—	—	—	—	300,000	—	—	—	—
57,470	705,500	106,895	470,510	—	—	502,745	84,385	169,297	487,700
57,470	705,500	106,895	470,510	70,000	300,000	502,745	84,385	169,297	487,700
10,010	189,000	240	49,970	12,300	60,000	75,000	1,215	1,310	—
—	—	—	—	—	60,000	—	—	—	—
$ 47,460	$ 516,500	$ 106,655	$ 420,540	$ 57,700	$ 180,000	$ 427,745	$ 83,170	$ 167,987	$ 487,700
$ 9,555	$ 25,000	$ 50	$ 27,040	$ 3,200	$ 15,000	$ 25,000	$ 190	$ 4,047	$ 24,385
9,535	25,000	12,025	45,490	3,200	15,000	25,000	195	2,146	24,385
9,510	25,000	11,935	53,010	3,200	15,000	25,000	205	6,523	24,385
9,490	25,000	11,810	73,555	3,200	15,000	25,000	215	6,532	24,385
9,370	25,000	11,680	73,650	3,200	15,000	25,000	225	22,289	24,385
—	25,000	11,600	69,255	3,200	15,000	25,000	230	31,402	24,385
—	25,000	47,555	71,925	3,200	—	25,000	240	43,269	24,385
—	25,000	—	6,615	3,200	—	25,000	250	22,448	24,385
—	25,000	—	—	3,200	—	25,000	260	22,503	24,385
—	54,000	—	—	4,000	—	25,000	275	6,828	24,385
—	80,000	—	—	4,000	15,000	25,000	285	—	24,385
—	80,000	—	—	4,000	15,000	25,000	295	—	24,385
—	—	—	—	4,000	15,000	25,000	80,305	—	24,385
—	77,500	—	—	4,000	15,000	25,000	—	—	24,385
—	—	—	—	4,000	15,000	25,000	—	—	24,385
—	—	—	—	4,900	15,000	25,000	—	—	24,385
—	—	—	—	—	—	27,745	—	—	24,385
—	—	—	—	—	—	—	—	—	24,385
—	—	—	—	—	—	—	—	—	24,385
—	—	—	—	—	—	—	—	—	24,385
$ 47,460	$ 516,500	$ 106,655	$ 420,540	$ 57,700	$ 180,000	$ 427,745	$ 83,170	$ 167,987	$ 487,700

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2010 *Table 12*

(Dollars in Thousands)

Payable from Highway Trust Fund

	Total Highway Trust	Highway Series 2003 12-1-03	Highway Refunding Series 2004 9-29-04	Highway Series 2004 9-29-04	Highway Refunding Series 2009A 10-20-09
		3%-5%	5.0-5.5%	3%-5%	3.5%-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..................	600,992	—	98,370	300,000	202,622
Total bonds authorized and issued........................	1,000,992	400,000	98,370	300,000	202,622
Bonds retired.........................	260,069	108,000	50,500	100,000	1,569
Partial defeasances..............	213,000	173,000	—	40,000	—
Bonds outstanding— 6/30/2010............................	— $ 527,923	$ 119,000	$ 47,870	$ 160,000	$ 201,053
Bond Maturity As Follows:					
2010-11............................	$ 58,873	$ 18,000	$ 16,030	$ 20,000	$ 4,843
2011-12............................	56,569	18,000	16,000	20,000	2,569
2012-13............................	61,647	18,000	15,840	20,000	7,807
2013-14............................	62,417	34,600	—	20,000	7,817
2014-15............................	46,676	—	—	20,000	26,676
2015-16............................	37,583	—	—	—	37,583
2016-17............................	51,786	—	—	—	51,786
2017-18............................	46,867	—	—	20,000	26,867
2018-19............................	46,933	—	—	20,000	26,933
2019-20............................	58,572	30,400	—	20,000	8,172
2020-21............................	—	—	—	—	—
2021-22............................	—	—	—	—	—
2022-23............................	—	—	—	—	—
2023-24............................	—	—	—	—	—
2024-25............................	—	—	—	—	—
2025-26............................	—	—	—	—	—
2026-27............................	—	—	—	—	—
2027-28............................	—	—	—	—	—
2028-29............................	—	—	—	—	—
2029-30............................	—	—	—	—	—
Total Bonds Outstanding.......	$ 527,923	$ 119,000	$ 47,870	$ 160,000	$ 201,053

Source: Compiled by the Department of State Treasurer

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SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2010

(Dollars in Thousands)

		Lease-Purchase Revenue Bonds			*Certificates of Participation*				
	Total Special Indebtedness Debt	*Total Lease Purchase Revenue Bonds*	NC Correctional Facilities Series 2003 7-15-03 2.0% - 5.25%	NC Facilities Projects Series 2004 11-1-04 2.0% - 5.25%	*Total Certificates of Participation*	Wildlife Capital Improvements Series 2003A 4-1-03 2.0% - 5.25%	Correctional Facilities Project Series 2004A 2-1-04 2.0% - 5.0%	Repair and Renovation Project Series 2004A 5-6-04 2.0% - 5.0%	Capital Improvements Series 2005A 6-9-05 3.5% - 5.0%
Bonds Authorized and Issued:									
Ch. 284, 2003 session law.........	$ 1,677,360	$ 218,405	$ 218,405	$ —	$ 858,955	$ —	$ 158,955	$ 125,000	$ —
Ch. 143, 2000 session law............	17,500	—	—	—	17,500	17,500	—	—	—
General Statute Ch. 148-37.2....	53,640	53,640	—	53,640	—	—	—	—	—
Ch. 179, 2004 session law.........	188,385	—	—	—	188,385	—	—	—	188,385
Total bonds authorized and issued.............................	1,936,885	272,045	218,405	53,640	1,064,840	17,500	158,955	125,000	188,385
Bonds retired.............................	268,535	57,000	47,000	10,000	192,240	4,190	47,695	36,000	35,655
Bonds outstanding— June 30, 2010......................	$ 1,668,350	$ 215,045	$ 171,405	$ 43,640	$ 872,600	$ 13,310	$ 111,260	$ 89,000	$ 152,730
Bond Maturity As Follows:									
2010-11.................................	$ 77,700	$ 10,000	$ 8,000	$ 2,000	$ 47,740	$ 765	$ 7,950	$ 6,000	$ 8,165
2011-12.................................	79,260	10,000	8,000	2,000	48,550	795	7,950	6,000	8,580
2012-13.................................	80,960	10,000	8,000	2,000	49,395	825	7,950	6,000	9,005
2013-14.................................	82,730	10,000	8,000	2,000	50,290	860	7,950	6,000	9,455
2014-15.................................	84,635	10,000	8,000	2,000	51,245	905	7,950	6,000	9,925
2015-16.................................	86,715	10,000	8,000	2,000	52,250	950	7,950	6,000	10,425
2016-17.................................	87,525	8,650	8,000	650	53,305	1,000	7,945	6,000	10,945
2017-18.................................	89,700	8,500	8,000	500	54,430	1,055	7,945	6,000	11,495
2018-19.................................	91,600	8,000	8,000	—	55,605	1,110	7,945	6,000	12,065
2019-20.................................	116,010	28,850	19,000	9,850	57,850	1,165	7,945	7,000	12,670
2020-21.................................	110,625	24,000	19,000	5,000	55,865	1,230	7,945	7,000	10,000
2021-22.................................	112,875	24,000	19,000	5,000	56,580	1,290	7,945	7,000	10,000
2022-23.................................	115,225	24,000	19,000	5,000	57,350	1,360	7,945	7,000	10,000
2023-24.................................	118,515	26,225	23,405	2,820	56,725	—	7,945	7,000	10,000
2024-25.................................	82,725	2,820	—	2,820	42,560	—	—	—	10,000
2025-26.................................	72,605	—	—	—	33,390	—	—	—	—
2026-27.................................	70,390	—	—	—	29,270	—	—	—	—
2027-28.................................	63,320	—	—	—	20,200	—	—	—	—
2028-29.................................	45,235	—	—	—	—	—	—	—	—
Total Bonds Outstanding...........	$ 1,668,350	$ 215,045	$ 171,405	$ 43,640	$ 872,600	$ 13,310	$ 111,260	$ 89,000	$ 152,730

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%
$ 100,000	$ 200,000	$ 200,000	$ 75,000	$ 600,000	$ 200,000	$ 400,000
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
100,000	200,000	200,000	75,000	600,000	200,000	400,000
20,000	30,000	11,200	7,500	19,295	6,050	13,245
$ 80,000	$ 170,000	$ 188,800	$ 67,500	$ 580,705	$ 193,950	$ 386,755
$ 5,000	$ 10,000	$ 6,110	$ 3,750	$ 19,960	$ 6,350	$ 13,610
5,000	10,000	6,475	3,750	20,710	6,670	14,040
5,000	10,000	6,865	3,750	21,565	7,000	14,565
5,000	10,000	7,275	3,750	22,440	7,350	15,090
5,000	10,000	7,715	3,750	23,390	7,720	15,670
5,000	10,000	8,175	3,750	24,465	8,105	16,360
5,000	10,000	8,665	3,750	25,570	8,510	17,060
5,000	10,000	9,185	3,750	26,770	8,935	17,835
5,000	10,000	9,735	3,750	27,995	9,385	18,610
5,000	10,000	10,320	3,750	29,310	9,855	19,455
5,000	10,000	10,940	3,750	30,760	10,345	20,415
5,000	10,000	11,595	3,750	32,295	10,860	21,435
5,000	10,000	12,295	3,750	33,875	11,405	22,470
5,000	10,000	13,030	3,750	35,565	11,975	23,590
5,000	10,000	13,810	3,750	37,345	12,575	24,770
5,000	10,000	14,640	3,750	39,215	13,205	26,010
—	10,000	15,520	3,750	41,120	13,865	27,255
—	—	16,450	3,750	43,120	14,555	28,565
—	—	—	—	45,235	15,285	29,950
$ 80,000	$ 170,000	$ 188,800	$ 67,500	$ 580,705	$ 193,950	$ 386,755

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2010
(Dollars in Thousands)

	2010	2009	2008	2007	2006
Town of Butner					
Revenue Bonds					
Pledged Revenue-					
Sales and services	(a)	(a)	(a)	(a)	$ 2,377
Rental lease earnings	(a)	(a)	(a)	(a)	5
Fees, licenses and fines	(a)	(a)	(a)	(a)	8
Miscellaneous revenue	(a)	(a)	(a)	(a)	147
Less: Operating expenses	(a)	(a)	(a)	(a)	(2,261)
Net available revenue	$ —	$ —	$ —	$ —	$ 276
Debt service					
Principal	(a)	(a)	(a)	(a)	$ 270
Interest	(a)	(a)	(a)	(a)	394
Coverage	(a)	(a)	(a)	(a)	0.42
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged Revenue-					
Federal transportation revenues	$ 823,450	$ 1,119,259	$ 904,400	$ —	$ —
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 823,450	$ 1,119,259	$ 904,400	$ —	$ —
Debt service					
Principal	$ 49,515	$ 45,745	$ —	$ —	$ —
Interest	17,652	13,585	5,056	—	—
Coverage	12.26	18.87	178.87	—	—
North Carolina Turnpike Authority (b)					
Revenue Bonds					
Pledged Revenue-					
Federal interest subsidy	$ 7,298	$ —	$ —	$ —	$ —
Interest on investments	4,121	—	—	—	—
Transfers in - state appropriations	25,000	—	—	—	—
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 36,419	$ —	$ —	$ —	$ —
Debt service					
Principal	$ —	$ —	$ —	$ —	$ —
Interest	15,052	—	—	—	—
Coverage	2.42	—	—	—	—
N.C. Housing Finance Agency					
Revenue Bonds					
Pledged Revenue-					
Interest on investments	$ 9,803	$ 13,001	$ 21,281	$ 26,088	$ 23,718
Interest on mortgage loans	81,437	86,813	82,913	71,892	66,515
Net increase/decrease in fair value of investments.	(46)	(444)	1,064	1,544	(2,372)
Other revenue	189	617	951	65	444
Less: Operating expenses	(7,416)	(6,062)	(5,542)	(4,868)	(4,640)
Net available revenue	$ 83,967	$ 93,925	$ 100,667	$ 94,721	$ 83,665
Debt service					
Principal	$ 36,865	$ 18,745	$ 31,050	$ 178,050	$ 175,670
Interest	75,909	43,070	77,665	73,845	70,059
Coverage	0.74	1.52	0.93	0.38	0.34

(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
Information prior to 2002 is not available.

Table 14

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

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2010
(Dollars in Thousands)

	2010	2009	2008	2007	2006
State Education Assistance Authority					
Revenue Bonds					
Pledged Revenue-					
Student loan principal collections	$ 312,810	$ 346,546	$ 364,274	$ 618,723	$ 660,332
Interest earnings on loans	29,760	90,594	137,512	151,237	115,306
Investment earnings	518	7,043	18,999	24,551	15,174
Less: Operating expenses	(47,318)	(43,273)	(31,381)	(30,290)	(24,627)
Net available revenue	$ 295,770	$ 400,910	$ 489,404	$ 764,221	$ 766,185
Debt service					
Principal	$ 395,398	$ 224,275	$ 153,589	$ —	$ 1,000
Interest	74,730	129,595	165,517	117,324	60,912
Coverage	0.63	1.13	1.53	6.51	12.38
Note Payable/Short term debt					
Pledged Revenue-					
Student loan principal collections	$ 81,631	$ —	$ —	$ —	$ —
Interest earnings on loans	563	—	—	—	—
Less: Operating expenses	(3,983)	—	—	—	—
Net available revenue	$ 78,211	$ —	$ —	$ —	$ —
Debt service					
Principal	$ 61,119	$ —	$ —	$ —	$ —
Interest	5,488	—	—	—	—
Coverage	1.17	—	—	—	—
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services	$ 314,377	$ 407,862	$ 658,628	$ 614,244	$ 562,332
Student tuition and fees	13,503	15,405	29,221	37,088	36,847
Patient services	563,267	502,062	1,447,635	1,367,363	1,210,356
Contracts and grants	—	—	123,469	120,657	120,513
State appropriations	—	—	53,010	45,674	44,510
Fees, licenses and fines	89	1,643	10,506	19,814	19,626
Rental lease earnings	5,809	5,989	7,690	29,587	21,182
Investment income	1,405	5,190	(31,687)	99,337	31,632
Other operating revenues	428	498	13,407	20,318	30,369
Non-operating revenues	—	—	53,231	50,929	37,274
Less: Operating expenses	(746,115)	(802,163)	(2,047,904)	(1,919,133)	(1,763,826)
Net available revenue	$ 152,763	$ 136,486	$ 317,206	$ 485,878	$ 350,815
Debt service					
Principal	$ 20,394	$ 19,055	$ 51,272	$ 51,995	$ 52,696
Interest	8,934	15,277	69,315	66,764	66,557
Coverage	5.21	3.98	2.63	4.09	2.94

Information prior to 2002 is not available.

Table 14

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

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2006-2010 *Table 14*

(Dollars in Thousands)

	2010	2009	2008	2007	2006
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services	$ 2,814	$ 2,874	$ 2,446	$ —	$ —
Student tuition and fees	1,286	1,329	1,147	1,114	1,090
Rental lease earnings	26	77	118	—	—
Investment income	3	8	45	44	19
Less: Operating expenses	(1,086)	(993)	(895)	(60)	—
Net available revenue	$ 3,043	$ 3,295	$ 2,861	$ 1,098	$ 1,109
Debt service					
Principal	$ 1,140	$ 1,105	$ 1,075	$ 905	$ 575
Interest	1,144	1,181	1,209	573	222
Coverage	1.33	1.44	1.25	0.74	1.39
Note Payable					
Pledged Revenue-					
Federal interest subsidy	$ 22	$ —	$ —	$ —	$ —
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 22	$ —	$ —	$ —	$ —
Debt service					
Principal	$ —	$ —	$ —	$ —	$ —
Interest	64	—	—	—	—
Coverage	0.35	—	—	—	—

Information prior to 2006 is not available.

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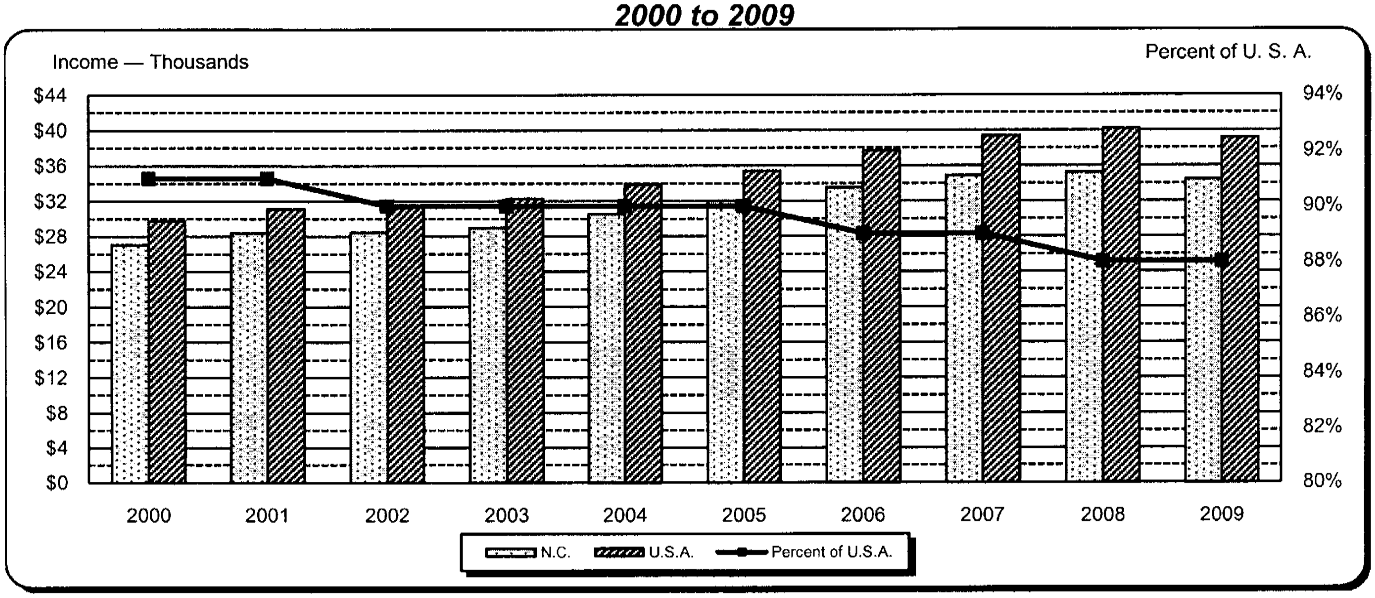
SCHEDULE OF DEMOGRAPHIC DATA

For the Years 1950, 1960, 1970, 1980, 1990, 2000, 2001-2010

	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
2010	309,646,806 [D]	0.86%	9,516,907 [D]	1.45%	— [E]	— [E]	—	— [E]	— [E]
2009	307,006,550 [B]	0.86%	9,380,884 [B]	1.45%	$39,138 [C]	$ 34,453 [C]	88.03%	$12,015,622	$ 323,200
2008	304,374,846 [B]	0.93%	9,247,134 [B]	2.02%	40,166 [C]	35,249 [C]	87.76%	12,225,520	325,952
2007	301,579,895 [B]	1.00%	9,064,074 [B]	2.22%	39,392 [C]	34,865 [C]	88.51%	11,879,835	316,019
2006	298,593,212 [B]	0.96%	8,866,977 [B]	2.28%	37,698 [C]	33,558 [C]	89.02%	11,256,367	297,558
2005	295,753,151 [B]	0.92%	8,669,452 [B]	1.62%	35,424 [C]	32,035 [C]	90.43%	10,476,760	277,726
2004	293,045,739 [B]	0.94%	8,531,283 [B]	1.36%	33,881 [C]	30,557 [C]	90.19%	9,928,683	260,690
2003	290,326,418 [B]	0.88%	8,416,451 [B]	1.20%	32,271 [C]	28,955 [C]	89.72%	9,369,124	243,698
2002	287,803,914 [B]	0.95%	8,316,617 [B]	1.38%	31,462 [C]	28,460 [C]	90.46%	9,054,887	236,691
2001	285,081,556 [B]	1.30%	8,203,451 [B]	1.91%	31,145 [C]	28,382 [C]	91.13%	8,878,865	232,830
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] - Data could not be estimated

Per Capita Income
North Carolina Compared to United States
2000 to 2009



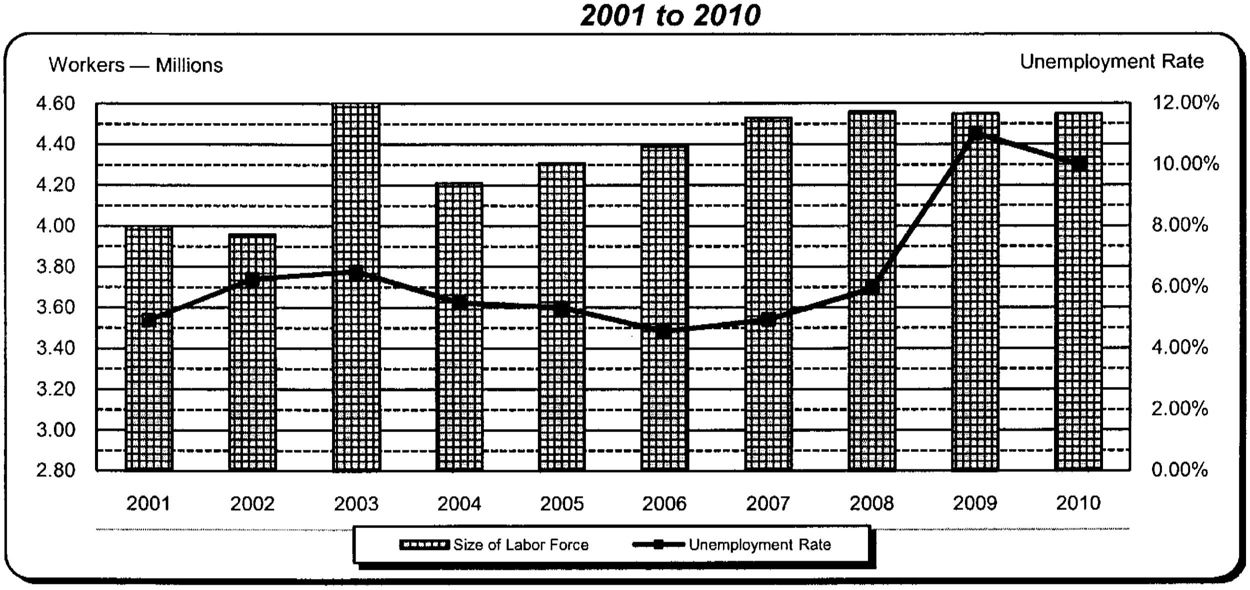
Sources: *[1] Population — U.S. Department of Commerce, Bureau of the Census*
[2] Per Capita Income — U.S. Department of Commerce, Bureau of Economic Analysis
[3] Personal Income — Calculated from sources 1 and 2

Table 15

	North Carolina Civilian Labor Force Data			[4]	North Carolina - Other Data	
					[5]	[6]
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	Motor Vehicles Registered	Residential Construction Authorized
2010	4,545,756	4,089,199	456,557	10.00%	8,207,805	18,525
2009	4,554,663	4,052,943	501,720	11.02%	8,451,048	17,006
2008	4,559,713	4,288,621	271,092	5.95%	8,570,893	31,316
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626
2005	4,308,482	4,078,645	229,837	5.33%	7,925,587	50,488
2004	4,208,568	3,977,421	231,147	5.49%	7,701,410	46,735
2003	4,152,243	3,882,026	270,217	6.51%	7,624,272	38,137
2002	3,964,000	3,715,400	248,600	6.27%	7,498,181	40,763
2001	3,999,300	3,802,500	196,800	4.92%	7,344,437	23,555
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 2001 to 2010



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 2001 & 2010 *Table 16*

	2010			2001		
Employer	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.46%	160,000-164,999	1	4.27%
Federal Government	65,000-69,999	2	1.65%	60,000-64,999	2	1.64%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.28%	30,000-34,999	3	0.86%
Duke University	25,000-29,999	4	0.67%	20,000-24,999	5	0.59%
Charlotte Hospital Authority	25,000-29,999	5	0.67%	10,000-14,999	10	0.33%
Food Lion LLC	25,000-29,999	6	0.67%	25,000-29,999	4	0.72%
Charlotte Board of Ed.	20,000-24,999	7	0.55%	15,000-19,999	7	0.46%
Wells Fargo Bank NA	20,000-24,999	8	0.55%	10,000-14,999	9	0.33%
Wake Public schools	15,000-19,999	9	0.43%	10,000-14,999	8	0.33%
Lowes Home Centers, Inc	15,000-19,999	10	0.43%	—		—
IBM Corporation	—		—	15,000-19,999	6	0.46%
Total	440,000-489,990		11.36%	355,000-404,990		9.99%

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

Source: *North Carolina Employment Security Commission*

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TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2002-2010

Functions	2010	2009	2008	2007	2006
General government	6,424	6,362	6,188	6,045	5,680
Primary and secondary education	154,107	163,322	163,113	160,086	156,463
Higher education:					
Universities	61,723	61,299	59,084	56,964	55,800
Community colleges	18,730	17,027	16,480	15,935	15,610
Health and human services	20,919	22,094	21,276	21,128	20,766
Economic development	2,524	2,474	2,558	2,623	2,567
Environment and natural resources	4,607	4,740	4,709	4,653	4,616
Public safety, corrections and regulations	32,657	33,431	32,600	31,971	31,448
Transportation	13,902	14,767	14,752	14,664	14,007
Agriculture	1,366	1,393	1,385	1,405	1,377
Totals	316,959	326,909	322,145	315,474	308,334

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2010 are projected from prior year data.
Information prior to 2002 not available.

Table 17

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

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2010

	2010	2009	2008	2007	2006
General Government					
Department of Revenue					
Number of tax returns filed electronically	4,089,267	3,502,141	3,246,333	2,799,979	2,487,716
Number of tax returns processed	10,898,544	11,336,722	11,258,489	10,386,112	10,437,669
Number of individual refunds direct deposited	1,376,997	1,294,894	1,119,403	925,321	809,473
Number of individual refunds processed	3,021,379	3,081,986	3,005,539	2,832,152	2,834,960
Number of pieces of incoming mail	7,219,907	6,897,757	8,636,219	8,092,899	7,986,688
Number of pieces of outgoing mail	8,201,770	8,443,945	9,194,775	7,844,614	9,206,342
Department of Administration					
Construction projects administered	16	135	117	61	71
Construction value excluding design fee (thousands)	$ 79,906	$ 110,674	$ 52,660	$ 60,028	$ 73,006
Cultural Resources					
Visitation to historical sites and museums	2,325,718	2,079,340	2,627,987	2,748,455	2,068,910
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment	1,465,562	1,466,803	1,462,374	1,435,275	1,368,607
Total high school graduates	89,968	83,618	80,606	88,691	72,580
Graduate intention to pursue further education	85.19%	85.09%	84.86%	84.63%	87.09%
Higher Education					
Community Colleges					
Number of students (annualized FTE)	246,656	215,915	200,000	193,410	190,644
Number of certificates and degrees awarded	33,922	31,203	28,173	27,117	28,983
Universities					
Number of regular term students (FTE)	199,717	193,219	187,791	181,886	176,619
Number of certificates and degrees awarded	43,459	41,924	39,592	38,260	37,348
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (a)	1,721,439	1,686,515	1,721,488	1,667,354	1,673,510
Food stamp recipients	1,294,732	1,077,914	924,265	874,426	838,064
Clients served by mental health facilities	11,951	14,366	14,706	18,501	18,678
Clients served by developmental disabilities facilities	1,069	1,329	1,344	1,312	2,114
Clients served by substance abuse facilities	3,168	4,221	4,307	144	3,854
Children served through subsidized child care	151,363	150,813	159,457	167,568	149,946
Participation in Special Supplemental Nutrition Program	271,980	273,845	254,120	239,441	230,140
Clients served through Work First	56,186	54,911	53,082	59,340	69,885
NC Health Choice annual enrollment	198,613	194,611	181,685	171,580	199,160
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion	18,326	15,077	11,636	19,259	20,293
Capital investment (thousands)	$ 2,653,795	$ 3,433,657	$ 3,600,000	$ 3,336,864	$ 3,024,914
Employment Security Commission					
Total employed	4,089,199	4,054,498	4,288,946	4,309,833	4,193,971
Percentage of unemployment	10.00%	11.00%	6.00%	4.90%	4.56%

Table 18

2005	2004	2003	2002
1,922,459	1,666,765	1,436,218	1,239,844
9,947,817	9,725,620	9,778,591	9,658,531
673,976	564,200	446,217	N/A
2,732,523	2,658,709	2,654,339	2,595,070
8,334,624	8,122,589	8,222,560	9,061,094
8,687,346	8,922,981	10,098,087	9,332,605
226	181	213	205
$ 873,713	$ 486,287	$ 522,060	$ 359,381
2,356,046	2,465,484	2,234,241	1,326,603
1,346,681	1,325,344	1,303,777	1,285,729
74,691	71,853	69,568	65,681
84.64%	83.26%	83.63%	83.13%
194,235	192,693	185,490	176,743
29,600	27,050	23,645	22,853
158,398	152,224	171,409	141,272
37,569	36,689	34,580	32,644
1,545,366	1,541,450	N/A	N/A
818,141	791,241	N/A	N/A
18,894	16,353	N/A	N/A
2,172	2,189	N/A	N/A
3,633	3,572	N/A	N/A
155,339	156,534	N/A	N/A
224,670	218,345	N/A	N/A
39,426	42,177	N/A	N/A
169,491	N/A	N/A	N/A
18,246	15,393	9,531	13,459
$ 2,982,292	$ 1,863,213	$ 1,127,466	$ 2,690,123
4,087,359	3,977,421	3,882,026	3,715,400
5.38%	5.49%	6.51%	6.27%

Continued

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2010

	2010	2009	2008	2007	2006
Environment and Natural Resources					
Department of Environment and Natural Resources					
Public drinking water systems in compliance	96%	95%	95%	95%	94%
Visitation to Museum of Natural Sciences	656,234	763,763	727,000	667,014	622,915
Visitation to N.C. Zoo	749,627	729,615	729,500	746,650	682,977
Wildlife Resources Commission					
Hunting licenses sold	213,700	212,361	211,780	204,425	204,451
Fishing licenses sold	543,544	560,282	538,800	511,974	451,412
Vessels registered	151,348	143,071	140,573	142,808	363,641
Public Safety and Correction					
Department of Correction					
Incarcerated offenders	40,102	40,824	39,112	38,218	37,121
Supervised offenders	111,743	114,367	116,927	117,164	116,513
Adminstrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court	100.00%	97.40%	98.50%	98.50%	93.80%
Cases disposed as a % of cases filed-District Court	100.00%	100.00%	98.28%	98.70%	98.10%
Agriculture					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (b)	121,897	99,461	98,736	100,928	109,699
Rejection rate	10.77%	10.29%	12.73%	13.80%	10.77%
Retail scales tested (c)	33,331	33,329	24,640	20,051	24,896
Rejection rate	11.10%	11.11%	10.51%	10.70%	8.28%

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)

Information prior to 2002 is not available.

Table 18

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

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2010

	2010	2009	2008	2007	2006	2005
Primary Government						
General Government						
Department of Administration						
Buildings	129	129	129	135	136	134
Parking lots	76	23	49	49	49	17
Parking spaces	8,813	7,408	8,477	8,215	8,156	7,879
Motor Fleet vehicles	8,341	8,784	9,090	9,506	10,785	16,145
Health and Human Services						
Mental Health Institutions	12	13	12	12	12	12
Number of certified beds	4,688	4,346	4,932	4,961	5,009	4,885
Environment and Natural Resources						
Department of Environment and Natural Resources						
Number of state park lands	35	35	34	33	32	32
Acres of state park lands	148,897	144,806	140,254	119,664	222,251	182,251
Number of state recreation areas	4	4	4	4	4	4
Acres of state recreation areas	12,240	12,240	12,240	12,240	12,240	12,240
Number of state natural areas	19	19	17	18	14	17
Acres of state natural areas	20,833	20,910	20,281	34,288	32,930	30,513
Number of state lakes	7	7	7	7	7	7
Acres of state lakes	29,135	29,135	29,135	29,135	29,135	29,135
Zoo animals (a)	1,569	1,565	1,723	1,786	1,942	2,024
Vehicles	1,947	1,912	1,862	1,789	1,723	1,618
Boats/Trailers	1,416	1,390	1,325	1,295	366	327
Aircraft	47	47	48	45	30	40
Scientific equipment	5,262	5,058	4,702	4,666	4,454	3,979
Wildlife Resources Commission						
Number of Game Lands	61	59	58	54	38	37
Acres of Game Lands	475,212	468,570	471,248	431,449	341,351	317,467
Public Safety and Correction						
Department of Correction						
Close security prisons	14	14	13	13	13	13
Medium security prisons	23	26	26	26	26	26
Minimum security prisons	33	39	39	39	39	37
Vehicles:						
Passenger/Cargo vans	106	116	129	170	99	85
Inmate transfer vans/buses	569	472	497	448	481	418
Inmate workcrew vans/buses	276	291	306	274	301	380
Pickup trucks	310	308	309	305	287	275
Roving patrol pickups	103	89	100	80	84	78
One ton maintenance trucks	114	107	103	105	105	92
Specialty/Other trucks (b)	115	110	125	109	103	113
Enterprise Vehicles:						
Passenger/Cargo vans	18	22	23	22	23	24
Inmate workcrew buses	25	26	28	24	21	22
Pickup trucks	54	59	52	51	47	51
One ton maintenance trucks	22	22	20	18	18	16
Other/Specialty trucks	101	103	104	98	93	95

Table 19

2004	2003	2002
132	132	132
18	20	N/A
7,961	8,249	N/A
14,592	13,190	13,098
12	12	12
5,083	5,220	5,390
30	30	30
176,146	173,833	172,763
4	4	4
12,240	12,240	12,238
17	16	14
30,323	28,999	27,643
7	7	7
29,135	29,135	29,135
2,643	2,411	2,059
1,574	1,471	1,403
308	278	254
40	39	39
3,572	3,366	3,155
35	34	33
325,794	288,238	294,471
16	13	13
24	24	24
36	36	39
69	67	61
398	391	386
394	349	351
325	248	277
77	64	55
98	99	112
108	103	94
31	29	30
21	25	28
41	45	41
21	18	21
86	91	88

Continued

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2010

	2010	2009	2008	2007	2006	2005
Department of Crime Control and Public Safety						
Vehicles:						
Alcohol Law Enforcement						
Cars/SUV's	156	156	150	151	156	134
State Highway Patrol						
Cars	2,692	2,692	2,722	2,530	2,417	2,283
Trucks/Vans	128	128	111	115	114	59
Motorcycles	19	19	16	16	9	(c)
Air craft:						
State Highway Patrol						
Helicopters	8	8	8	8	13	14
Transportation						
Department of Transportation						
Pavement in lane-miles:						
Primary subsystem	(d)	14,919	14,885	14,871	14,833	14,805
Secondary subsystem	(d)	64,267	64,553	64,390	64,209	64,204
Bridges:						
Number of bridges	13,251	13,222	13,152	13,053	13,007	12,961
Number of culverts	5,056	5,007	5,004	4,979	4,912	4,879
Vehicles	8,422	9,349	8,850	8,850	5,823	6,347
Heavy Equipment	12,647	13,216	12,116	8,920	3,119	3,359
Component Units						
Higher Education						
Community Colleges						
Buildings	1,134	1,097	1,046	1,024	1,014	1,025
Universities						
Academic/Administrative buildings	962	933	911	971	930	918
Dormitories/Auxiliary buildings	640	560	523	613	583	565
Medical (e)	37	39	58	58	51	51
University System Hospitals						
Administration	4	4	4	4	4	4
Clinical	11	12	11	11	10	10
Facility services	6	6	6	6	6	6
Hospital	6	5	4	4	4	4

Notes:

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

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

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

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

(e) East Carolina Teaching Hospital

Information prior to 2002 is not available.

Table 19

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

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 2001-2010

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, 2001-2010 *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.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1) Required contribution and investment revenue:										
Earned	$ 8,136	$ 9,599	$ 12,255	$ 10,826	$ 16,219	$ 12,538	$ 14,509	$ 18,430	$ 18,054	$ 20,337
Ceded	2,453	2,839	3,396	3,121	2,380	2,489	3,077	2,371	3,642	3,852
Net earned	5,683	6,760	8,859	7,705	13,839	10,049	11,432	16,059	14,412	24,189
2) Unallocated expenses	3,214	3,597	3,953	3,689	2,951	3,092	3,672	664	680	659
3) Estimated claims and expenses, end of policy year:										
Incurred	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783
Ceded	—	—	—	—	—	—	—	—	—	—
Net incurred	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783
4) Paid (cumulative) as of:										
End of policy year	422	392	1,921	10,381	3,129	3,130	15,174	1,426	1,746	1,502
One year later	2,475	640	2,765	12,788	3,536	4,005	19,270	2,016	2,149	
Two years later	2,475	640	3,219	13,120	3,536	4,005	19,270	2,016		
Three years later	2,475	640	3,681	13,120	3,536	4,005	19,270			
Four years later	2,475	640	3,681	13,120	3,536	4,005				
Five years later	2,475	640	3,681	13,120	3,536					
Six years later	2,475	640	3,681	13,120						
Seven years later	2,475	640	3,681							
Eight years later	2,475	640								
Nine years later	2,475									
5) Reestimated ceded claims and expenses	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253	1,783
One year later	2,475	4,846	3,543	12,911	2,093	3,096	11,348	1,653	2,276	
Two years later	2,475	4,846	3,947	12,911	2,093	3,096	11,348	1,979		
Three years later	2,475	4,846	3,947	12,911	2,093	3,096	11,348			
Four years later	2,475	4,846	3,947	12,911	2,093	3,096				
Five years later	2,475	4,846	3,947	12,911	2,093					
Six years later	2,475	4,846	3,947	12,911						
Seven years later	2,475	4,846	3,947							
Eight years later	2,475	4,846								
Nine years later	2,475									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(3,974)	—	1,257	325	—	—	(3,567)	261	23	—

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