NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

B. Bonds, Special Indebtedness, and Notes Payable

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

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

* For variable rate debt, interest rates in effect at June 30, 2015 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The issuer has elected to treat a portion of these obligations as federally taxable "Build America Bonds" for purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury for a specified percentage of the interest payable on these obligations. The outstanding balance of "Build America Bonds" was $586.6 million for the primary government and $420.71 million for component units. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

C. Debt Authorized but Unissued

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

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

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

D. Demand Bonds

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

Component Unit

University of North Carolina System

The University of North Carolina at Chapel Hill

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

General Revenue, Series 2001B and 2001C

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

General Revenue, Series 2012D

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

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

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

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

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

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

North Carolina State University

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

General Revenue Bonds, Series 2003B

On June 20, 2003 the University issued tax-exempt variable rate revenue demand bonds in the amount of $45.66 million that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

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

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003 and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2015, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the purchase date along with accrued interest at the Liquidity Provider rate. In the event the outstanding $42.63 million of demand bonds was "put" and not resold, the University would be required to pay $15 million a year for three years under this agreement assuming a 3.25% interest rate.

General Revenue Bonds, Series 2008A

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

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

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

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the base rate (the greater of the bank prime commercial lending rate plus 1%, the federal funds rate plus 2%, or 7%) for 180 days. Beginning on day 181 (the amortization date), the Bank Bonds become Term Bonds and bear interest at the base rate plus 1%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2015, there were no Bank Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire July 6, 2017, unless otherwise extended based on the terms of the Agreement.

After the amortization date, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semiannual installments, rounded to the nearest Authorized Denomination, beginning the first business day of the month immediately following the commencement of the Term Bank Bond period. In the event the outstanding $66.34 million of demand bonds was "put" and not resold, the University would be required to pay $25 million a year for three years under this agreement assuming an 8% interest rate.

University of North Carolina Hospitals at Chapel Hill

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

Revenue Bonds, Series 2001A and Series 2001B

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

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

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

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

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

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase to and including the 60th day thereafter and while they are Bank Bonds, bear interest at the Formula Rate (base rate equal to the higher of the Prime Rate plus 1% for such day or the sum of 1% plus the Federal Funds Rate) and from and including the 61st day following the purchase date and thereafter bear interest at the higher of the Formula Rate or 7%, subject to a maximum rate as permitted by law; provided however, that at no time shall the base rate be less than the applicable rate of interest on the bonds which are not Bank Bonds. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2015, there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July, and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding $92 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $23.94 million, $23.07 million, $21.78 million, $20.49 million, and $19.21 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a base rate of 4.25% (Prime Rate plus 1%) for the first 60 days and a maximum rate of 7% thereafter.

The current expiration date of the Agreements is September 20, 2020. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider.

Revenue Refunding Bonds, Series 2003A and Series 2003B

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

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

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

The 2003A Agreement with Bank of America, N.A. required a commitment fee of 0.34% for fiscal year 2015. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter until July 1, 2015. The long-term agreement was renegotiated in June 2015 with a decrease in liquidity fee to 0.33% effective July 1, 2015 through July 1, 2016. The commitment rate remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the commitment rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

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

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

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime Rate plus 1.5% or the Federal Funds Rate plus 3%, the base rate, for the first 90 days and then the base rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the base rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2015, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding $59.62 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $22.67 million, $21.87 million, and $20.73 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 4.75% (Prime plus 1.5%).

NOTES TO THE FINANCIAL STATEMENTS

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.35% for fiscal year 2015. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November thereafter until July 31, 2017. The commitment fee remains in effect over the life of the Agreement, however, the commitment rate shall be increased to the per annum percentage described in the table below if (i) the debt rating assigned by Moody's or S&P to the long-term debt of UNC Hospitals, without regard to third-party credit enhancement, falls to the corresponding levels specified in such table, (ii) such rating is withdrawn or suspended or (iii) an Event of Default occurs and is continuing hereunder. After any such increases are made, the commitment rate shall be decreased to the per annum percentage described in the table below if the debt rating assigned by Moody's or S&P to the long-term debt of UNC Hospitals, without regard to third-party credit enhancement, rises to the corresponding levels specified in such table. Any such increases (or decreases, as the case may be) in the commitment rate shall be effective as of the date of such downgrade, upgrade, withdrawal, suspension or Even of Default, as applicable. The commitment rate shall be the fee listed below which corresponds to the lowest debt rating assigned to UNC Hospitals specified in the table below:

S&P	Moody's	Commitment Rate
A	A2	0.5%
A-	A3	0.65%
BBB+	Baa1	0.85%
BBB	Baa2	1.1%
BBB-	Baa3	1.4%
Below Investment Grade	Below Investment Grade	2.4%

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate equal to the greater of the Prime Rate plus 1%; the Federal Funds Rate plus 2% or 7%, subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. At June 30, 2015, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem Bank Bonds in 11 equal quarterly installments of principal, on the first business day of each February, May, August, and November beginning on the first of such dates that occurs at least 90 days after the purchase date of such Bank Bonds. The Hospitals shall pay interest of the base rate plus 2% in arrears on each date that would be an Interest Payment Date for the Series 2003B Bonds, beginning on the first Interest Payment Date that occurs after the Loan Date. If the take out agreement were to be exercised because the entire outstanding $32.05 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $10.75 million, $13.51 million, and $12.39 million in years one, two and three respectively following the purchase date of the Bank Bonds assuming a base rate of 7%.

Revenue Refunding Bonds, Series 2009A

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

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

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

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

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

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

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

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

E. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component unit (University of North Carolina System). The debt service requirements of variable rate debt and net swap payments are based on rates as of June 30, 2015 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

Primary Government

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

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

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

Component Unit

University of North Carolina System

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

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

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

F. Bond Defeasances

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

Primary Government

On November 19, 2014, the State of North Carolina issued approximately $299.02 million of tax-exempt Limited Obligation Refunding Bonds, Series 2014C. The bonds carry an all-in true interest cost of 2.55% and have an average life of 8.93 years. The bonds are dated November 19, 2014 and will bear interest from that date. Interest on the bonds will be payable semiannually on May 1 and November 1 commencing May 1, 2015. The bonds will mature from May 1, 2015 through May 1, 2017 and May 1, 2019 through May 1, 2028 and were issued at coupon rates of 2%, 3% and 5%. The bonds maturing on or after May 1, 2025 are subject to redemption prior to maturity. The State issued the refunding bonds for the purpose of achieving debt service savings through the refunding of certain maturities of special indebtedness as follows: Capital Improvement Certificates of Participation, Series 2005A, Series 2006A, and Series 2007A; Repairs and Renovations Certificates of Participation, Series 2006A; and Capital Improvement Limited Obligation Bonds, Series 2008A and Series 2009A; and to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds refunded totaled $309.2 million with an average interest rate of 4.92%. The net proceeds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability was removed from the statement of net position. The Series 2014C refunding reduced total debt service payments by approximately $21.1 million over the next 12 years and resulted in an economic gain of approximately $17.8 million. At June 30, 2015, the outstanding balance was $298.77 for the defeased bonds.

Component Unit

University of North Carolina System

The University of North Carolina at Chapel Hill
On October 9, 2014, the University issued $265.6 million in The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2014, with an average interest rate of 3.87%. The bonds were issued to advance refund $250 million of outstanding The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2005A, with an average interest rate of 4.99%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $26.93 million over the next 21 years and resulted in an economic gain of $21.9 million. At June 30, 2015, the outstanding balance was $250 million for the defeased The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2005A bonds.

The University of North Carolina at Charlotte
On March 11, 2015, the University issued $37.06 million in The University of North Carolina Charlotte General Revenue Bonds, Series 2015 refunding bonds with an average interest rate of 4.06%. The bonds were issued to advance refund $36.26 million of outstanding The University of North Carolina Charlotte General Revenue Bonds, Series 2007B bonds with an average interest rate of 4.84%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $3.58 million over the next 22 years and resulted in an economic gain of $2.51 million. At June 30, 2015, the outstanding balance was $36.26 million for the defeased The University of North Carolina Charlotte General Revenue Bonds, Series 2007B bonds.

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

On May 12, 2015, the University issued $34.63 million in Refunding Limited Obligation Bonds, Series 2015 with an average interest rate of 4.79%. The bonds were issued to advance refund $37.25 million of outstanding Series 2006 Certificates of Participation with an average interest rate of 4.93%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $4.37 million over the next 22 years and resulted in an economic gain of $3.1 million. At June 30, 2015, the outstanding balance was $36.83 million for the defeased Series 2006 Certificates of Participation.

Appalachian State University
On November 25, 2014, the University issued $21.21 million in Appalachian State University General Revenue Refunding Bonds, Series 2014C with an average interest rate of 3.82%. The bonds were issued to advance refund $21.38 million of outstanding UNC System Pool Revenue Bonds, Series 2006A with an average interest rate of 4.96%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $2.84 million over the next 17 years and resulted in an economic gain of $2.28 million. At June 30, 2015, the outstanding balance was $21.38 million for the defeased UNC System Pool Revenue Bonds, Series 2006A.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net position. At June 30, 2015, the outstanding balance of prior year defeased bonds was $493.31 million for the primary government and $85.29 million for the University of North Carolina System (component unit).

G. Pollution Remediation Payable

Primary Government

Governmental Activities

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environment and Natural Resources assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 26 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

The N.C. Department of Cultural Resources is responsible for cleaning up hazardous substances at the Tryon Palace Barbour Boatworks Site (Boatworks Site). The N.C. Department of Cultural Resources has agreed upon a remedial action plan with the Hazardous Sites Branch of DENR to voluntarily clean up the Boatworks Site.

At year-end, the State recognized a pollution remediation liability of $6.42 million, of which $6.17 million was for leaking underground fuel tanks at DOT and $250 thousand was for the polluted site at the N.C. Department of Cultural Resources. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Component Unit

University of North Carolina System
Fayetteville State University recognized a pollution remediation liability of $33 thousand for asbestos removal and underground storage tank removal at campus buildings. The amount of the liability was calculated from the estimated costs of the removal.