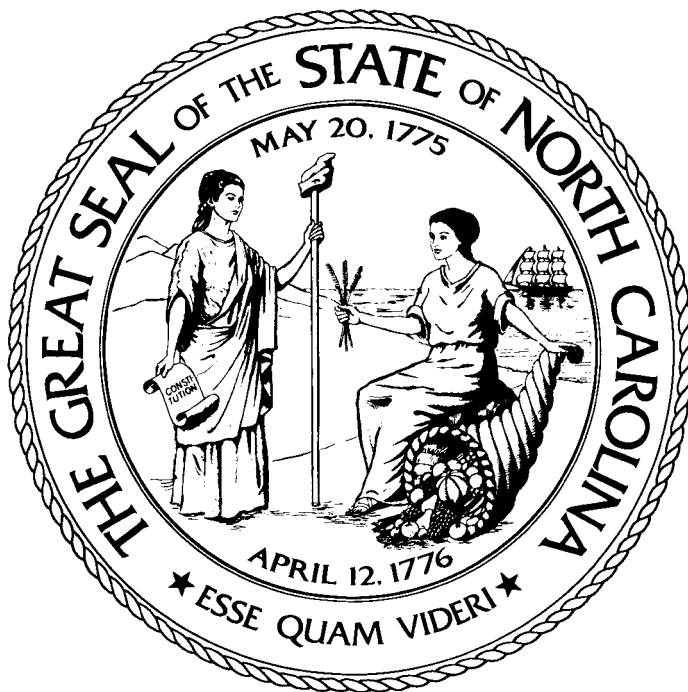


NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2000



JAMES B. HUNT, JR.
GOVERNOR

EDWARD RENFROW
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

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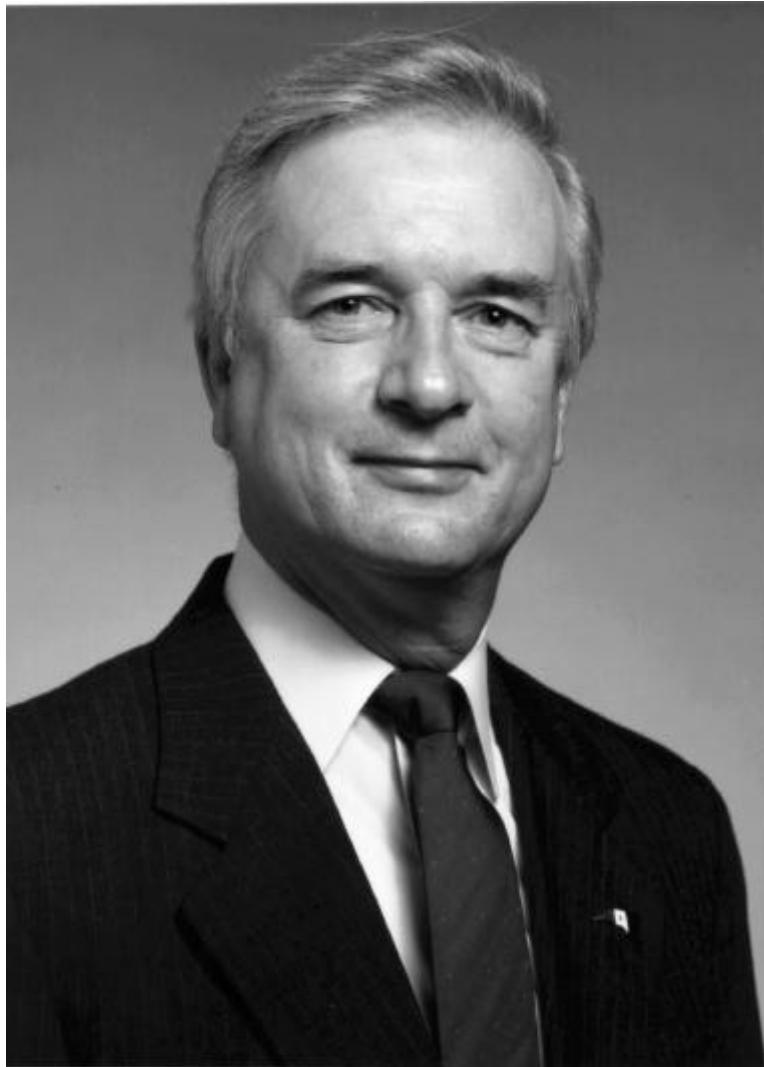
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Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions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



JAMES B. HUNT, JR.
Governor of North Carolina

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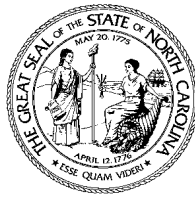
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INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

James B. Hunt, Jr., Governor

Edward Renfrow, State Controller
Gwen Canady, Chief Deputy

The Honorable James B. Hunt, Jr.
Governor of the State of North Carolina, and

Members of the North Carolina General Assembly

It is our pleasure to furnish you with the 2000 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.39. 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, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of North Carolina. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

For the convenience of users we have divided this comprehensive annual financial report into three major sections, described as follows:

- The **introductory section** includes this transmittal letter and the State's organization chart, including a listing of principal State officials.
- The **financial section** includes the general purpose financial statements (combined statements, the notes, and the required supplementary information), the combining and individual fund and account group financial statements, and schedules.
- The **statistical section** includes selected financial, non-financial and demographic information, much of which is presented on a ten-year basis, as well as required supplementary information.

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types and account groups 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 financial statements. The State's discretely presented component units are the University of North Carolina system, the State's community colleges, the Golden L.E.A.F. Foundation (*governmental organization*), and various proprietary organizations providing specific services to the public and private sector. 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 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.

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Issues and Initiatives

During fiscal year 1999-2000, the Governor, the General Assembly, and the departments and agencies of State government worked to address key issues facing the citizens of North Carolina.

Hurricane Floyd

Hurricane Floyd passed through the eastern portion of North Carolina on September 15 and 16. Hurricane and tropical force winds, torrential rains, and flooding left one-third of North Carolina suffering from an unprecedented natural disaster. The record-high floodwaters of Hurricane Floyd forced thousands of people from their homes. Many citizens lost homes, farms, and businesses. On December 16, 1999, the General Assembly held a special session for the purpose of setting aside \$836.6 million of funds for recovery from damage caused by the winds, rain, and flooding of Hurricane Floyd. Funds were allocated in the following categories and amounts: housing/rental expenditures, \$446.3 million; State match of federal funds, \$162.2 million; agriculture and fisheries, \$98.3 million; local government assistance, \$37.8 million; small business, \$36.7 million; and various other programs, \$55.3 million. The primary sources of funding included: \$292.5 million came from General Fund operating budgets; \$146.5 million in unspent capital improvement funds, and \$286 million from the General Fund Savings Reserve Account. Of the \$292.5 million reallocated from General Fund operating budgets, \$96.8 million was provided by the Department of Health and Human Services, \$65.0 million from State employee health plan and compensation reserves, \$45.6 million from the Department of Public Instruction, \$14 million from the Department of Correction, \$13.6 million from the University of North Carolina System, \$8.5 million from the Department of Environment and Natural Resources, \$5.8 million from the Community Colleges, and \$43.2 million from other entities. As these funds flow into the economies of the areas affected by Hurricane Floyd, income and sales taxes should offset some portion of the cost of our disaster recovery effort.

General Obligation Debt

In November 1996, the voters of North Carolina approved bonds in the amount of \$1.8 billion for school construction and \$950 million for highway construction. In November 1998, North Carolina voters approved an additional \$800 million of new debt to finance grants and loans to local government units for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation and water reuse projects; and an additional \$200 million of new debt to finance grants, loans, or other financing to public or private entities for construction of natural gas facilities.

The first bond issue related to the \$1 billion of public improvement bonds which were approved in November 1998 was issued on September 1, 1999 in the amount of \$197.4 million. The bonds in Series 1999A were issued at rates ranging from 5.0% to 5.4% with a final maturity of March 1, 2019. The bonds in Series 1999B were issued at rates ranging from 6.7% to 6.75% with a final maturity of March 1, 2007.

The second bond issue related to the \$1 billion of public improvement bonds was issued on October 1, 1999 in the amount of \$2.6 million. The bonds were issued at rates ranging from 4.5% to 4.7% with a final maturity of March 1, 2007.

On September 1, 2000, \$300 million in Public Improvement Bonds, Series 2000A were issued, representing a consolidation of Public School Building Bonds in the amount of \$295 million and Natural Gas Bonds in the amount of \$5 million. The bonds were issued at rates ranging from 5.0% and 5.1% with a final maturity of September 1, 2018.

University and Community College Bonds. On November 7, 2000, the State's voters approved \$3.1 billion of University and Community College general obligation bonds. The \$3.1 billion is

projected to be issued over the six-year period beginning in fiscal year 2000-01, with repayments scheduled for fiscal year 2001-02 through fiscal year 2024-25. Total debt service for all of the State's outstanding general obligation debt is projected to be at its highest in fiscal year 2006-07, at \$722 million (*assuming no additional voter approved debt in subsequent years*). At June 30, 2000, the State's outstanding general obligation debt totaled \$2.5 billion, with an additional \$1.95 billion approved and unissued at June 30, 2000 (*prior to the November 7, 2000 bond vote*). Outstanding general obligation debt is projected to peak at \$6.043 billion for fiscal year 2005-06. The General Assembly has predetermined the specific building projects to be funded by the bond proceeds. The General Assembly's Higher Education Bond Oversight Committee will monitor capital plans and receive regular reports and updates from the University System, the community colleges, the State Treasurer, and the Office of State Construction. The bond legislation will require many local governments to partially match funds targeted for new community college buildings. The matching requirement is reduced or eliminated for low-wealth counties and for counties that have exceeded historic match requirements. Community college repair and renovation projects do not have matching requirements. Concern has been expressed for an already tight labor market in North Carolina. The combination of State and local road projects, school construction, and the new construction to be funded by the \$3.1 billion of bond proceeds will add to labor market pressures, potentially increasing construction costs.

**Bonds Authorized, Issued, and Unissued
November 30, 2000**

(Expressed in Thousands)

Authorized:	Date	School	Highway	Clean Water	Natural Gas	University and	Total
		Construction	Construction			Colleges	
School Construction	11/05/1996	\$ 1,800,000	\$ —	\$ —	\$ —	\$ —	\$ 1,800,000
Highway Construction	11/05/1996	—	950,000	—	—	—	950,000
Clean Water	11/03/1998	—	—	800,000	—	—	800,000
Natural Gas	11/03/1998	—	—	—	200,000	—	200,000
University and Community Colleges	11/07/2000	—	—	—	—	3,100,000	3,100,000
Total Authorized		1,800,000	950,000	800,000	200,000	3,100,000	6,850,000
Issued:							
Public School Building Series 1997A	03/01/1997	450,000	—	—	—	—	450,000
Highway Bonds, Series 1997A	11/01/1997	—	250,000	—	—	—	250,000
Public School Building Series 1998A	04/01/1998	450,000	—	—	—	—	450,000
Public School Building Series 1999	04/01/1999	450,000	—	—	—	—	450,000
Public Improvement, Series 1999A	09/01/1999	—	—	172,400	5,000	—	177,400
Public Improvement, Series 1999B	09/01/1999	—	—	—	20,000	—	20,000
Public Improvement, Series 1999C	10/01/1999	—	—	2,600	—	—	2,600
Public Improvement, Series 2000A	09/01/2000	295,000	—	—	5,000	—	300,000
Total Issued		1,645,000	250,000	175,000	30,000	—	2,100,000
Unissued — November 30, 2000		\$ 155,000	\$ 700,000	\$ 625,000	\$ 170,000	\$ 3,100,000	\$ 4,750,000
Outstanding general obligation debt at November 30, 2000							\$ 2,809,986
Outstanding and unissued general obligation debt at November 30, 2000							\$ 7,559,986

Construction and Other Commitments

At June 30, 2000, the State had commitments of \$1,560.7 million for construction of highway facilities. Of this amount, \$1,185.3 million relates to the Highway Fund, and \$375.4 million relates to the Highway Trust Fund. The other commitments for construction and improvements of State government facilities totaled \$412.9 million (including \$365.8 million for the Department of Environment and Natural Resources, \$11.4 million for the Department of Correction, and \$10.9 million for the Department of Health and Human Services).

The University of North Carolina system (component unit) had outstanding construction commitments of \$235.3 million (including \$71.5 million for University of North Carolina - Chapel Hill, \$50.7 million for UNC Hospitals, and \$18.3 million for East Carolina University). Community colleges (component units) had outstanding construction commitments of \$25.9 million (including \$6.1 million for Cape Fear Community College, \$3.0 million for Fayetteville Technical Community College, and \$3.0 million for Johnston Community College). The proprietary component units had outstanding commitments of \$28.4 million (including \$12.8 million for State Ports Authority and \$10.9 million for State Education Assistance Authority).

Litigation

Leandro et al v. State of North Carolina and State Board of Education — Right to a Sound Basic Education. 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. If not appealed, the ruling will require legislative action necessary to implement and fund pre-kindergarten programs. The cost of such programs is undetermined but may exceed \$100 million.

Bailey v. State, Emory v. State, and Patton v. State -- State Tax refunds -- State and Federal Retirees. In 1992, State and local government retirees filed *Bailey, et al. v. North Carolina, et al.*, a class action lawsuit challenging repeal of the income tax exemptions for State and local government retirement benefits as a breach of contract and an unconstitutional impairment of their contract rights and seeking tax refunds for taxes paid in tax years 1989 through 1991. The *Bailey* plaintiffs obtained judgment in May 1995 in the Superior Court for Wake County, and on May 8, 1998, the Supreme Court of North Carolina upheld the Superior Court's decision. Several additional cases, also named *Bailey, et al. v. North Carolina, et al.*, and one named *Emory, et al. v. North Carolina, et al.*, were filed by State and local government retirees to preserve their refund claims for subsequent tax years through tax year 1997. The outcome of these cases was controlled by the outcome of the initial *Bailey* case.

In 1995, a group of federal government retirees filed *Patton, et al. v. North Carolina, et al.*, a class action tax refund lawsuit seeking refunds of State taxes paid on federal pension income since tax year 1989. The *Patton* plaintiffs claimed that if the *Bailey* plaintiffs prevailed on their refund claims, then the disparity of tax treatment accorded state and federal pension income held unconstitutional in *Davis v. Michigan* (1989) would be reestablished. In *Davis*, the United States Supreme Court ruled that a Michigan income tax statute that taxed federal retirement benefits while exempting those paid by state and local governments violated the constitutional doctrine of intergovernmental tax immunity. At the time of the *Davis* decision, North Carolina law contained similar exemptions in favor of State and local government retirees. The repeal of those exemptions in 1989 resulted in the *Bailey* case.

On June 10, 1998, the General Assembly reached an agreement settling the *Bailey, Emory* and *Patton* cases. The agreement, embodied in a consent order, provided that the State would pay \$799 million in two installments, one in 1998 and the other in 1999, to extinguish all liability for refunds for tax years 1989 through 1997 of taxes paid by federal, State and local government retirees who had five years creditable service in their retirement system prior to August 12, 1989, the date of enactment of the statute repealing the exemptions from taxation of State and local government retirement benefits, or who had "vested" by that date in certain

"defined contribution" plans such as the State's 401(k) and deferred compensation plans. The consent order was conditioned upon the General Assembly appropriating the funds to make the payments set forth in the consent order and court approval of the settlement following notice to class members. A liability of \$399 million was recorded in the General Fund at June 30, 1999 and paid in July 1999. All payments required of the State by the settlement agreement have now been paid. The Superior Court is supervising payment of the refunds.

***Smith v. State and Shaver v. State* — State Tax Refunds -- Intangibles Tax.** The *Smith* case is a class action tax refund lawsuit related to litigation in *Fulton Corporation v. Faulkner*, a case filed by a single taxpayer and decided by the United States Supreme Court in 1996 regarding the constitutionality of intangibles taxes previously collected by the State on shares of stock. On July 7, 1995, while the *Fulton* case was pending before the United States Supreme Court, the *Smith* class action was commenced in North Carolina Superior Court on behalf of all taxpayers who paid the tax and complied with the requirements of the applicable tax refund statute, G.S. 105-267, including its 30-day demand requirement. These original plaintiffs were later designated Class A when a second group of taxpayers were added. The new class, designated Class B, consisted of taxpayers who had paid the tax but failed to comply with the refund statute's 30-day demand requirement. On June 11, 1997, judgment was entered awarding the Class A plaintiffs refunds totaling \$120 million, with interest, and these refunds have been paid. In a separate order also entered on June 11, 1997, Class B was decertified and the refund claims of Class B taxpayers were dismissed. Class counsel appealed the Class B decertification/dismissal order, and on December 4, 1998, the North Carolina Supreme Court reversed the dismissal. As a result of the *Smith* decision, the State was required to pay refunds to Class B intangibles taxpayers.

A second class action tax refund lawsuit, *Shaver, et al. v. North Carolina, et al.*, was filed on January 16, 1998, by the same taxpayers as Class B plaintiffs in *Smith* under alternative theories of recovery for tax years 1991 through 1994 and for refunds for one additional tax year, 1990. Their additional claim for 1990 totals approximately \$100 million. A Settlement Agreement was executed on July 8, 1999, and a Consent Order Tentatively Approving Settlement was executed and signed by the presiding judge the same day. Pursuant to the Settlement Agreement and the Consent Order, the State paid the sum of \$200 million on October 1, 1999, and the sum of \$240 million on July 10, 2000 to distribute refunds to *Smith* Class B taxpayers for tax years 1991 through 1994 and to *Shaver* taxpayers for tax year 1990. (The settlement does not affect *Smith* Class A taxpayers because they have already been paid refunds). On September 24, 1999, the Court conducted a fairness hearing and entered an order approving the Class Action Settlement. In order to achieve the final consummation of the settlement, the General Assembly appropriated the \$240 million balance for the 2000-2001 fiscal year. The liability for the \$240 million is reported in the General Fund. All payments required of the State by the settlement have now been paid and the Superior Court is supervising payment of the refunds. The settlement fixes the State's liability for these claims and completes the litigation over North Carolina intangible taxes paid on shares of stock.

***N.C. School Boards Association, et. al. v. Harlan E. Boyles, 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.

For the last fiscal year for which information was available to them, plaintiffs allege liability of approximately \$84 million. Until this matter is resolved, any refunds and interest will continue to accrue. The North Carolina Attorney General's Office believes that sound legal arguments support the State's position on the outstanding claims.

Faulkenbury v. Teachers' and State Employees' Retirement System, Peele v. Teachers' and State Employees' Retirement System, and Woodard v. Local Governmental Employees' Retirement System — Disability Retirement Benefits. The plaintiffs are disability retirees who brought class actions in State court challenging changes in the formula for payment of disability retirement benefits and claiming impairment of contract rights, breach of fiduciary duty, violation of other federal constitutional rights, and violation of state constitutional and statutory rights. The Superior Court ruled in favor of the plaintiffs. The Order was affirmed by the North Carolina Supreme Court in 1997. The case went back to the Superior Court for calculations of benefits and payment of retroactive benefits, along with determination of various remedial issues. As a result of the remedial proceedings, there have been two appeals to the appellate courts concerning calculation of the retroactive benefits. The plaintiffs previously submitted documentation to the court asserting that the cost in damages and higher prospective benefit payments to the plaintiffs and class members would amount to \$407 million. Calculations and payments so far indicate that retroactive benefits will be significantly less than estimated, depending in part on the pending appeal. Payments have been made by the State of approximately \$83 million. A liability of \$43.6 million for the retroactive benefits has been booked in the Teachers' and State Employees Retirement System.

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 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 recently 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 North Carolina Attorney General's office believes that sound legal arguments support the State's position on this matter.

Ford Motor Credit v. State and Chrysler Credit v. State. – Installment Paper Dealer Tax. The plaintiffs purchased dealer installment sales contracts from automobile manufactures that had financed new car inventories for automobile dealers in North Carolina. The Department of Revenue issued assessments against the plaintiffs, claiming that the purchase of the dealer's installment sales contracts was subject to the state of North Carolina's installment paper tax. The plaintiffs paid the tax assessments then sued the Department demanding refunds. A judgement was entered against the Department of Revenue in both cases. The combined liability is slightly over \$58.7 million. The appellate courts have affirmed the *Chrysler* judgment with the result that the Department was required to repay approximately \$20.5 million. The refund was paid in October 2000. On November 1, 2000, the North Carolina Court of Appeals issued an order accepting the Secretary of Revenue's motion to dismiss an appeal previously filed by the North Carolina Department of Revenue in the *Ford Motor Credit* case. As a result of withdrawing the appeal the Department will be required to repay approximately \$38.2 million. The liability is scheduled to be paid in November 2000. The issue raised by these cases is not expected to arise again with these taxpayers but may arise in connection with other taxpayers.

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which normally recur in 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.

New Governmental Reporting Model Infrastructure Reporting

On June 30, 1999, the Governmental Accounting Standards Board published *GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which provides a new look and focus of reporting public finance in the United States. The new standard will significantly change the way state and local governments report their finances to the public. In addition to the State's general government agencies, the accounting and financial reporting for the State's Community College System campuses (*component unit*), and the campuses of the University of North Carolina (*component unit*) will also be affected by this new GASB standard.

An important aspect of the new standard is the requirement to provide information about infrastructure assets. Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Our primary focus related to infrastructure will necessarily be at the N.C. Department of Transportation and the State's roads and highway systems. Additionally, a significant amount of effort will be required for our universities and community colleges to complete their individually published financial statements based on the new standard defined by GASB Statement No. 34. As we look at the various aspects of the new GASB standard, the new infrastructure accounting and reporting requirements seem to give us our greatest cause for concern. There undoubtedly will be additional cost to the State to implement this new GASB standard and to maintain the accounting and reporting of this new information on a timely basis.

The effective date of GASB Statement No. 34 is the fiscal year 2001-2002. Minimum requirements will call for an inventory and categorization of the State's major road and highway systems, and an objective assignment of costs and useful lives to the State's major infrastructure assets. The Department of Transportation's accounting system will need to be capable of capturing and maintaining this information. By June 30, 2006, the State will be required to reflect the major infrastructure assets, with related depreciation and accumulated depreciation, acquired or significantly reconstructed, or that received significant improvements since July 1, 1980, on its financial statements. The universities and community colleges will be required by GASB Statement No. 34 to have all infrastructure assets placed in service since July 1, 1980, with related depreciation and accumulated depreciation, recorded in their accounting records by June 30, 2002. This undertaking will be no small task.

The new GASB Statement No. 34 is a priority topic for state auditors, state treasurers and state controllers. A task force of the National Association of State Auditors, Comptrollers and Treasurers (NASACT) has begun work on solving the implementation issues presented by GASB Statement No. 34.

North Carolina Highway System: Condition Assessment and Funding

A major new financial reporting requirement for governments, discussed above, is the inclusion of infrastructure assets in governments' financial statements, to include depreciation and accumulated depreciation. One allowable alternative to depreciating infrastructure assets is to demonstrate that the infrastructure assets are being maintained at an acceptable condition level. Our State is moving towards implementation of the historical cost method with depreciation. Our State road system includes an estimated 78,083 miles of roads. The Department of Transportation is required by G.S. 136-44.3 to survey and report on the condition of the State highway system. This report provides estimates of :

- (1) The annual cost of routine maintenance of the State highway system;
- (2) The cost of eliminating any maintenance backlog by categories of maintenance requirements;

- (3) The annual cost to resurface the State highway system based upon a 12-year repaving cycle for the primary system and a 15-year cycle for other highways; and
- (4) The cost of eliminating any resurfacing backlog, by type of system.

On the basis of this report, the North Carolina Department of Transportation develops a statewide annual maintenance program for the State highway system, which is subject to the approval of the North Carolina Board of Transportation and takes into consideration the general maintenance needs, special maintenance needs, vehicular traffic, and other factors deemed pertinent. Transportation engineers, at the end of the fiscal year, certify the maintenance of highways in each division in accordance with an annual work program, along with explanations of any deviations. The report on the condition of the State highway system and the annual maintenance program are presented to the Joint Legislative Transportation Oversight Committee by November 30 of each even-numbered year. A detailed assessment is conducted of the State's pavements, structures, and roadway features. The methodologies used in the survey and assessment are based on acceptable practices used in other state transportation departments across the country.

The *1998 Report on the Condition of the State Highway System* concludes that the condition of the State highway system is directly related to the level of funding, and that current funding levels for routine maintenance and resurfacing are inadequate. In a high growth State such as North Carolina, the trend of increasing lane miles and increased traffic on existing roads, along with general deterioration from the elements, are at the heart of the problem.

The most current *Condition* report highlights that while road maintenance funding has increased over the last decade, the increase in funding has not kept pace with inflation. The December 1998 report estimated total maintenance needs, including backlogs, ranges from \$705 million in fiscal year 1999-2000, to \$1.035 billion in fiscal year 2008-2009 (averaging \$849.5 million per year). For the year ended June 30, 2000, \$461 million was spent on road maintenance. The approved State budget included \$482 million of road maintenance funding for fiscal year 2000-2001.

Economic Condition and Outlook

Condition

Many signs point to an economic slowdown in North Carolina. Statewide employment increased 1.8% during the first nine months of 2000 compared to a 3% increase during the same period in 1999. Job layoffs in the state rose from a quarterly average of 5,400 in 1999 to 7,800 in the first half of 2000. Even in the fast-growing metropolitan counties of North Carolina, the pace of economic activity slowed in 2000. Again comparing employment growth for January to September 2000 to the same period for 1999, employment growth slowed from 3.3% to 1.2% in Charlotte, from 4% to 2% in the Triangle (*Raleigh, Durham, and Chapel Hill*), and from 3% to -0.5% in the Triad (*Greensboro, Winston-Salem, and High Point*).

Although the state's economic engine slowed in 2000, the slowdown did not affect all sectors equally. During the past year (August 1999 to August 2000), seasonally-adjusted jobs in manufacturing fell 3.4%. The manufacturing sectors leading in job losses were textiles, apparel, transportation equipment, furniture and fixtures, electronic equipment, and tobacco products. These job losses reflected two factors at work in North Carolina. The first is continuing restructuring in the textile, apparel, and tobacco industries. The second factor is a reduction in industries making durable products, a change that is typical during economic slowdowns.

In contrast, jobs continued to increase in the service sector during 2000. Over 67,000 jobs were added in services during the past year. Leading gainers were wholesale and retail trade, financial services, educational services, and the federal government.

While North Carolina's workers and businesses coped with slower economic growth in 2000, the state's consumers also faced higher inflation during the year. Through August, the Consumer Price Index (CPI) rose at an annual rate of 3.9% in 2000, up from 2.2% in 1999. Much of the jump in the CPI was due to significantly higher fuel prices.

Some borrowing also became more expensive in 2000. The prime lending rate rose three times in 2000 to 9.5%, and other short-term interest rates followed. However, longer-term interest rates actually trended downward during the year, perhaps reflecting a market expectation that future borrowing costs will drop.

The North Carolina urban/rural disparity in job creation narrowed in 2000. From January to August 2000, 30% of the statewide increase in jobs occurred in fifteen urban counties. This percentage is considerably lower than in previous years and indicates a more significant economic slowdown in urban counties compared to rural counties.

There are three reasons behind the apparent economic slowdown in North Carolina in 2000. First, the national economy slowed in 2000, from a growth rate of 5% early in the year to under 3% at the end of the year. This national slowdown meant nationwide purchases of North Carolina products, particularly manufactured products, also slowed in 2000. Second, the current economic expansion in the state is now in its ninth year, and expansions of such length are difficult to sustain. Third, the Federal Reserve raised interest rates six times since June 1999 in a specific effort to slow the economy. The Fed's policy appeared to definitely take effect in 2000.

Outlook

Most forecasts project continued slower economic growth, at least through the first half of 2001. An Economic Activity Index developed at North Carolina State University forecasts composite activity in retail sales, construction, and employment falling 1.5% in late 2000 and early 2001, after rising 2.7% during the previous year. The slower economy will impact the manufacturing sector more than the service sector. This will result in a continued decline in manufacturing jobs through mid-2001. However, if the national economic growth rate slows enough to satisfy the Federal Reserve, then there may be a turnaround in the economy in the second half of 2001. This would especially occur if the Fed began reducing interest rates in early 2001. It generally takes six to twelve months for lower interest rates to stimulate the economy. A revived economy would boost the manufacturing and construction sectors and the stock market.

Some relief is expected from the inflation rate in 2001. If oil prices don't repeat their 2000 rise in 2001, and if national economic growth stays in the 2% to 3% range, then upward pressure on prices should abate. Also, if the Fed does reduce interest rates in early 2001, then borrowing costs will fall. In short, the Federal Reserve may be able to achieve the "soft-landing" it has desired for the economy. A soft-landing means reducing the growth rate of the economy without causing a recession. A soft-landing allows the economy to "rest and refresh" before beginning another period of more rapid growth. A soft-landing is also designed to keep inflation in check. If, indeed, a soft-landing has occurred in 2000 and early 2001, then more rapid growth could return to the economy in late 2001.

However, it is important to recognize that North Carolina will continue to face economic challenges in 2001. Among them will be slower growth in revenues for state government, continued urban/rural disparities in growth and job opportunities, restructuring in tobacco and textiles, and remaining as an attractive location for businesses in an increasingly competitive world.

— *Economic analysis prepared by Dr. Michael L. Walden, Professor
North Carolina State University
November 1, 2000*

Financial Information

Internal Control

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.

As a recipient of federal financial assistance, the State also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management, internal audit staff, and independent auditors of the government.

Budgetary Control

In addition, 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 and most departmental special revenue 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 by way of quarterly allotments, 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. This "Certified Budget" is the legal expenditure authority; however, executive changes to the legal budget may be approved by the Office of State Budget and Management (OSBM). This results in the "Final Budget" presented in the financial statements.

GAAP Accounting

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143-20.1 requires the Office of the State Controller to prepare a comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP). Furthermore, the Governmental Accounting Standards Board and the nation's financial community have encouraged states to present, in their annual reports, financial statements of the governmental funds that are prepared on the modified accrual basis of accounting, following generally accepted accounting principles. Under this basis, which more adequately serves the financial community's analytical and other needs, revenues are recognized when they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year-end. Generally, expenditures are

recognized when a liability is incurred. Except for exhibits and notes clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

Results of Operations

General Governmental Funds

Revenues and Other Financing Sources

Revenues and other financing sources for general governmental functions (*General Fund, special revenue funds, and capital projects funds*) amounted to \$26.130 billion for the fiscal year ended June 30, 2000, using the modified accrual basis of accounting. The major categories of revenues and other financing sources are shown in the following table. Amounts are expressed in millions.

	<u>Amount</u>	<u>Percent of Total</u>
Revenues:		
Taxes.....	\$ 14,569	55.8%
Federal funds.....	7,253	27.8%
Local funds.....	511	2.0%
Investment earnings.....	501	1.9%
Fees, licenses and fines.....	1,046	4.0%
Other.....	<u>353</u>	1.4%
Total revenues.....	<u>24,233</u>	92.9%
Other Financing Sources:		
Operating transfers in and other sources.....	1,697	6.5%
Proceeds from bond sale.....	<u>200</u>	0.6%
Total other financing sources.....	<u>1,897</u>	7.1%
Total Revenues and Other Financing Sources.....	<u>\$ 26,130</u>	100.0%

Tax Revenues. Tax revenues increased by \$752 million in 2000, reflecting a higher rate of growth in General Fund income tax collections of 7.73% in 2000, versus 5.37% in 1999. Individual income tax collections in the General Fund increased by \$511 million in 2000 to \$7.098 billion, a 7.76% increase over 1999. Sales tax collections in the General Fund grew by \$19 million in 2000, a .57% increase over 1999, compared to a 2.12% increase from 1998 to 1999. Highway taxes were \$1.594 billion in fiscal year 2000, \$88.6 million, or 5.89% more than in 1999.

Federal Funds. Federal funds revenues grew by \$956 million in 2000, up by 15.2% over 1999. Increases in Federal revenues are due to increased Federal program expenditures for which the State is reimbursed.

Investment Earnings. Investment earnings of \$500.9 million reflect a decrease of \$28 million in 2000. Investment earnings include realized/unrealized gains, and distributed and accrued interest on cash and investments.

Expenditures and Other Financing Uses

Expenditures and other financing uses for general governmental purposes totaled \$26.922 billion in 2000, using the modified accrual basis of accounting. The major categories of expenditures and other financing uses, by function, are shown in the following table. Amounts are expressed in millions.

	<u>Amount</u>	<u>Percent of Total</u>
Expenditures:		
Current:		
General government.....	\$ 1,230	4.6%
Education.....	6,675	24.8%
Health and human services.....	8,411	31.2%
Economic development.....	429	1.6%
Environment and natural resources.....	371	1.4%
Public safety, corrections, and regulation.....	2,000	7.4%
Transportation.....	2,599	9.7%
Agriculture.....	144	0.5%
Tax judgments.....	440	1.6%
Capital outlay.....	159	0.6%
Debt service.....	<u>265</u>	1.0%
Total expenditures.....	<u>22,723</u>	84.4%
Other Financing Uses:		
Operating transfers out.....	1,577	5.9%
Operating transfers to component units.....	<u>2,622</u>	9.7%
Total other financing uses.....	<u>4,199</u>	15.6%
Total Expenditures and Other Financing Uses.....	<u>\$ 26,922</u>	100.0%

Significant changes in expenditures. The trend of increases in expenditures, an increase of \$2.26 billion for 2000, was directly related to the continued emphasis on education (\$421 million increase), health and human services (\$746 million increase), and Hurricane Floyd disaster relief expenditures administered by the Department of Crime Control and Public Safety (*public safety, corrections, and regulation function*, \$329 million increase). General government expenditures increased by \$190 million, or 18.3%. The largest part of this increase relates to decreased offsetting retirees' health premium revenues which were used to fund retirees' health premium expenditures.

A large portion of the governmental expenditures, *tax judgments*, is the result of the North Carolina Supreme Court ruling in *Smith vs. State of North Carolina* (**See Note 18**). The legal settlement required the State to pay \$440 million into a settlement fund in two installments, \$200 million by October 1, 1999, and \$240 million by July 10, 2000.

Educational expenditures (K-12) increased by \$421 million largely because of enrollment growth, increased teacher compensation, increases in the number of teaching positions, and the general increase in dollars spent on State administered programs and costs associated with providing public education. Health and human services increased by \$746 million in 2000. Transportation expenditures increased in fiscal year 2000 by \$90 million. Debt service increased \$37 million from 1999 to 2000 and will continue to climb as the State continues to issue general obligation debt to fund capital projects for education, highways and utilities.

Additional information, in greater detail and for the past ten years, may be examined in the statistical section.

**GAAP
Fund
Balance**

General Fund

The fund balance of the General Fund declined by \$878.5 million in 2000. Expenditures and transfers out exceeded revenues and transfers in by \$857.7 million. Total assets at June 30, 2000, were \$5.118 billion, with total liabilities at \$4.852 billion. Tax refunds payable were \$1.0129 billion in 2000, as compared to \$802.8 million in 1999. This \$210.1 million, 26.2%, increase includes \$100 million of individual income tax refunds deferred for payment to fiscal year 2000-2001 due to processing delays, and \$20 million in corporate income tax refunds delayed to balance the General Fund budget on a cash basis.

In an average year, taxpayer refunds as a percent of gross cash collections approximate 13.5% for individual income tax; just over 8% for corporate income tax; and 5.5% for sales and use tax. These rates of overcollection are the result of the State's tax policies, tax withholding and estimating tables, and in some cases, the desire of the taxpayer to receive a refund at the end of the tax year.

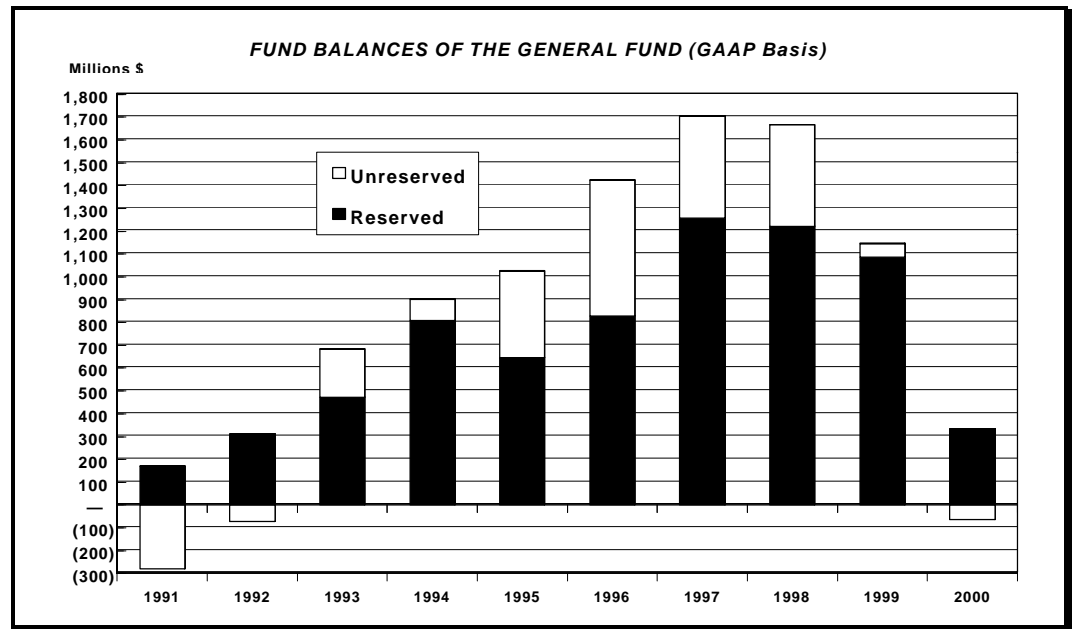
At June 30, 2000, total fund balance of the General Fund on the modified accrual basis was \$265.7 million, in comparison to a \$1.144 billion balance at the end of 1999.

The State's unreserved fund balance designations in the General Fund represent tentative plans for use in a future period. The State's internal governing body (*General Assembly*) establishes restrictions on the use of these assets which are reported as fund balance designations. Fund balance designations in the General Fund are established based on the amount of reserves available as measured on the budgetary basis of accounting and authorized carryforwards for continuing General Fund programs. These designations totaled \$870.647 million. As shown in the table below, the fund balance available to be designated was a negative \$64.834 million on a modified accrual basis (dollars in thousands):

Unreserved Designated Fund Balance	<u>General Fund</u>
Repairs and renovations.....	\$ 7,052
Clean Water Management Trust Fund.....	1,054
Disaster relief.....	543,565
Educational programs.....	162,131
Economic development.....	8,389
Continuing programs.....	27,176
Health and human services.....	119,192
Railroad dividends.....	918
Disproportionate share.....	1,170
Total designations.....	<u>\$ 870,647</u>
Unreserved fund balance, Exhibit A-1.....	<u>\$ (64,834)</u>

Restrictions in the form of reserves of \$330.5 million, exceeded total fund balance of \$265.7 million, resulting in a negative \$64.8 million unreserved fund balance. The State's liabilities to creditors and restrictions/designations of fund balance (equity) exceed the State's assets as determined by generally accepted accounting principles by a total of \$935.4 million.

The following chart illustrates the fund balances on the modified accrual (GAAP) basis of the General Fund for the last ten fiscal years.



**Budgetary
Fund
Balance**

For fiscal year 1999-2000, the General Fund closed the year with a zero unreserved fund balance. This compares to June 30, 1991, when the General Fund unreserved fund balance was \$441 thousand. North Carolina is required by its constitution to balance the General Fund on a budgetary basis. The budgetary basis reserved fund balance totaled \$447.5 million (see table below). See **Note 2** of the Notes to the Financial Statements for a more detailed discussion of our State’s budgetary process. The following schedule summarizes current year changes in the budgetary reserve accounts. Amounts are expressed in thousands.

General Fund Reserved Fund Balance	Balance June 30, 1999	Increases			(Decreases)				Balance June 30, 2000
		Transfers from General Fund Unreserved Fund Balance	Appropriated Expenditure to General Fund Reserved Fund Balance	Unbudgeted Revenues	Transfers to General Fund Unreserved Fund Balance	Transfer to General Fund Budget Code as a Departmental Receipt	Transfers to Non- General Fund Budgetary Funds	Unbudgeted Expenditures	
Savings.....	\$ 522,521	\$ 967	\$ —	\$ —	\$ (485,966)	\$ —	\$ —	\$ —	\$ 37,522
Retirees' health premium.....	288,024	—	—	—	—	—	—	(170,278)	117,746
Repairs and renovations.....	164,683	2,902	—	—	(150,000)	—	(10,533)	—	7,052
Intangibles tax refunds.....	—	—	240,000	—	—	—	—	—	240,000
NC Railroad acquisition.....	61,000	—	—	—	—	—	(19,000)	—	42,000
NC Railroad dividends.....	—	—	—	918	—	—	—	—	918
Clean water management.....	31,054	—	—	—	(30,000)	—	—	—	1,054
Disproportionate share.....	19,552	—	—	—	—	—	—	(18,382)	1,170
Aquariums.....	30,000	—	—	—	—	—	(30,000)	—	—
Work First.....	17,362	—	—	—	—	(17,362)	—	—	—
Capital Improvements.....	7,000	—	—	—	—	—	(7,000)	—	—
Total.....	\$ 1,141,196	\$ 3,869	\$ 240,000	\$ 918	\$ (665,966)	\$ (17,362)	\$ (66,533)	\$ (188,660)	\$ 447,462

Budgetary Savings Reserve Account

During the 1991 session, the General Assembly established a Savings Reserve Account as a restricted reserved portion of fund balance in the General Fund, becoming effective for the year ended June 30, 1992. Under this legislation, one-fourth of any unreserved credit balance (defined by the General Statutes as "...the credit balance, as determined on a cash basis, not already reserved to the Savings Reserve Account.") remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve until the account contains funds equal to 5% of the amount appropriated to the General Fund operating budget for the preceding year. For the fiscal year ended June 30, 1999, the General Assembly delayed the \$40.4 million deposit into the Savings Reserve Account, leaving the total reserve at \$522.5 million. For fiscal year 1999-2000, the General Assembly voted to use \$200 million from the Savings Reserve Account to be appropriated to fund the first installment payment resulting from the intangibles tax cases in which the State received adverse rulings (See *Intangibles Tax Ruling* above). An additional \$286 million was withdrawn from the Savings Reserve Account at the end of fiscal year 1999-2000 as part of the year-end effort to balance the budget and provide for General Fund commitments at the beginning of fiscal year 2000-2001. At June 30, 2000, an additional \$967 thousand was credited to the Savings Reserve Account. The General Assembly appropriated an additional \$120 million to the Savings Reserve Account for fiscal year 2000-2001.

Summary of Savings Reserve Account (in millions) :			Increase/ (Decrease)	Balance
Date	Description			
	Reserve - Budget Stabilization (Rainy Day Fund).....		\$ 0.4	\$ 0.4
June 1992	Statutory Reservation - G. S. 143-15.3.....		41.2	41.6
June 1993	Statutory Reservation - G. S. 143-15.3.....		134.3	175.9
July 1993	Withdrawal from Reserve		(121.0)	54.9
June 1994	Statutory Reservation - G. S. 143-15.3.....		155.7	210.6
January 1995	Budget Stabilization Appropriation		66.7	277.3
June 1995	Statutory Reservation - G. S. 143-15.3.....		146.3	423.6
June 1996	Statutory Reservation - G. S. 143-15.3.....		77.3	500.9
June 1997	Statutory Reservation - G. S. 143-15.3.....		—	500.9
June 1998	Statutory Reservation - G. S. 143-15.3.....		21.6	522.5
June 1999	Statutory Reservation - G. S. 143-15.3.....		—	522.5
July 1999	Withdrawal from Reserve		(200.0)	322.5
January 2000	Withdrawal from Reserve		(286.0)	36.5
June 2000	Statutory Reservation - G. S. 143-15.3.....		\$ 1.0	\$ 37.5

General Fund Budgetary Shortfall Fiscal Year 2000-2001

The General Fund began fiscal year 2000-2001 with a zero unreserved fund balance on the budgetary basis. Payment on certain fiscal year 1999-2000 income tax refund obligations did not occur until fiscal year 2000-2001, and were made from fiscal year 2000-2001 funds. These income tax refund obligations consisted of approximately \$100 million of individual income tax refunds deferred for payment to fiscal year 2000-2001 due to processing delays, and \$20 million in corporate income tax refunds delayed to balance the General Fund budget on a cash basis. Additional unbudgeted payments totaling \$58.5 million have been made in fiscal year 2000-2001 related to settled court cases (*Ford Motor Credit and Chrysler Credit*).

General Fund revenue collections have lagged expectations so far in fiscal year 2000-2001. General Fund tax and non-tax revenues are \$301.8 million behind projections through November 30, 2000, and are expected to be short of projections by \$325 million at June 30, 2001. Current estimates for Medicaid services for fiscal year 2000-2001 indicate an additional shortfall of between \$80 million to \$100 million. Therefore, the General Fund budget is experiencing a reduction in available resources in the range of \$405 million to \$425 million. The General Fund budget will, however, be balanced throughout the fiscal year and at the end of the fiscal year ending June 30, 2001.

The Office of State Budget, Planning and Management is in the process of examining State agencies operating budgets in an effort to cover the budgetary shortfall. Unaudited, General Fund budgetary financial information is available on the State's web page at: <http://www.osc.state.nc.us/financial/>.

Other Funds

Proprietary Funds

Operating revenues and operating expenses for the State's enterprise funds were \$24.97 million and \$130.4 million, respectively, in 2000. Operating loss was \$105.4 million, with the majority of the loss reflected in the Child Health Insurance Program at \$87.2 million. This loss is largely offset by nonoperating federal grants of \$68.9 million and operating transfers in of \$20.6 million. The Public School Insurance Fund, experienced an operating loss of \$15.4 million in fiscal year 1999-2000, based on claims expenses of \$19.6 million. Claims expenses for fiscal year 1998-99 were only \$4.4 million. Excessive claims for fiscal year 1999-2000 were the result of damages sustained by public schools as a result of Hurricane Floyd as it passed through eastern North Carolina in September 1999.

Combined operating results for the State's internal service funds exhibited continued strength in 2000. Operating revenues and expenses for these cost-reimbursement funds totaled \$348.6 million and \$328.4 million, respectively, in 2000. Principal internal service fund operations include the Workers' Compensation Program, Death Benefit Plan, Prison Enterprises, the State Property Fire Insurance, Motor Fleet Management, Centralized Computing Services, and State Telecommunications.

Pension Trust Funds

The operations of the Teachers' and State Employees' Retirement System continued its steady growth in 2000. The system's contributions increased by 11.6%. The system experienced a 10.2% increase in benefit payments to participants. Yield on investments for the Teachers' and State Employees' Retirement System approximated 9.4% for the fiscal year ended June 30, 2000. For the fiscal year ended June 30, 2000, the State continued to fund the actuarial required contribution. The State also participates in the Consolidated Judicial Retirement System, the Legislative Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund, the Supplemental Retirement Income Plan of North Carolina, 401(k), and the North Carolina National Guard Pension Fund. The Local Governmental Employees' Retirement System is administered by the State but the State is not a participant.

Debt Administration

At June 30, 2000, the State had a number of debt issues outstanding. These issues included \$2.5 billion in general obligation bonds, \$1.9 billion in revenue bonds in the component unit proprietary funds and \$1 billion in revenue bonds in the university funds. North Carolina continues to have AAA bond ratings issued by Standard and Poor's Corporation and Moody's Investors Service, the highest ratings attainable. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers. North Carolina is one of only a very small number of states currently having the AAA ratings. In addition, approximately 25 percent of all AAA ratings for state and local governments nationwide are located in North Carolina.

Cash Management

It is the policy of the State that all agencies, institutions, departments, bureaus, boards, commissions and officers of the State shall devise techniques and procedures for the receipt, deposit and disbursement of monies coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. The State Controller, with the advice and assistance of the State Treasurer, the State

Budget Officer, and the State Auditor, develops, implements, and amends the *Statewide Cash Management Policy*. All cash deposited with the State Treasurer by State entities is managed in pooled investment accounts to maximize interest earnings. During fiscal year 2000, uncommitted State funds were invested in short-term and medium-term U.S. Government notes and bonds, as well as other deposits, which had a composite average yield of 6.017%.

Risk Management

The State has a limited risk management program for fire and other property losses. As part of this comprehensive plan, resources are being accumulated in an internal service fund to meet potential losses. See **Note 12** of the Notes to the Financial Statements for a full description of the State's risk management program.

Independent Audit

Other Information

In compliance with State statute, an annual financial audit of the State entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with generally accepted government auditing standards and his opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

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, 1999. The Certificate of Achievement is a 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 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 State government 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 Comprehensive Annual Financial Report should be directed to the Office of the State Controller at (919) 981-5454.

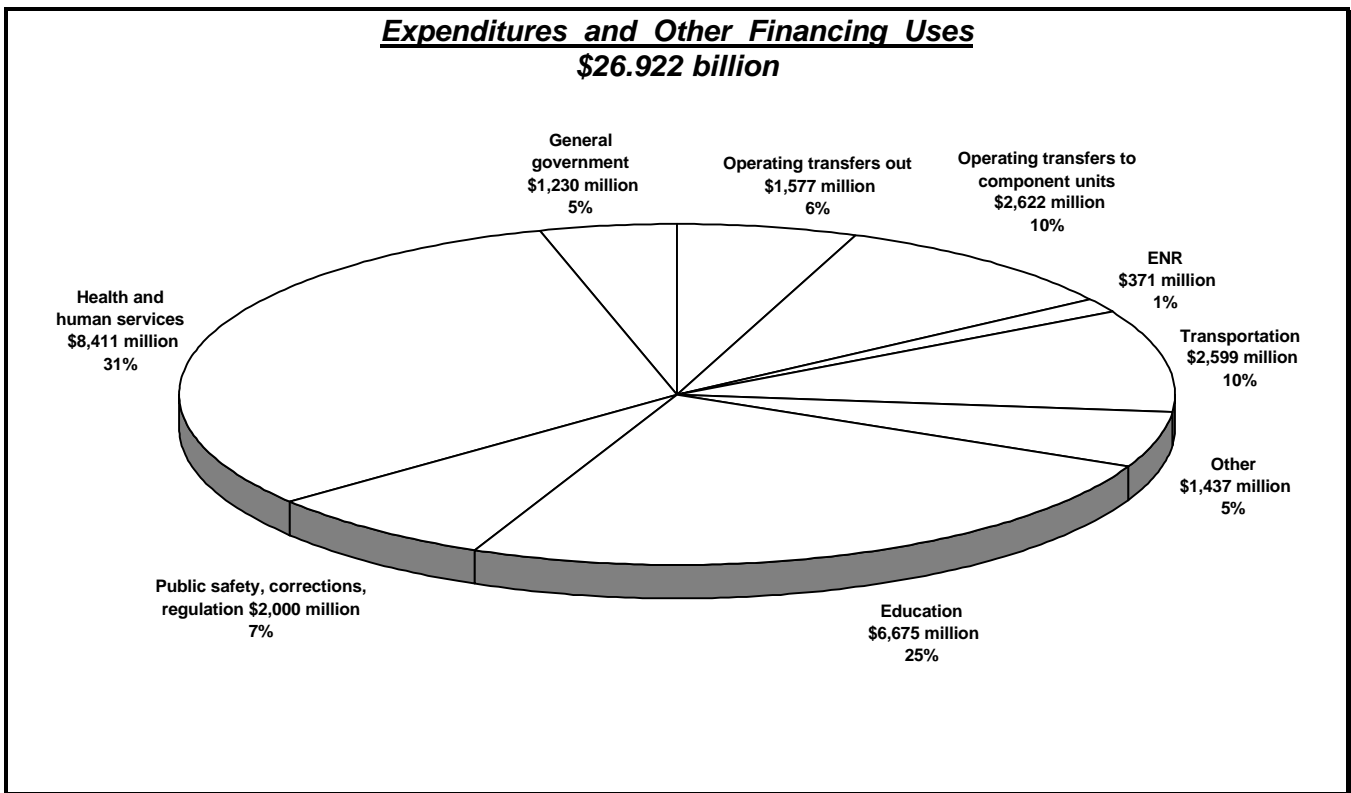
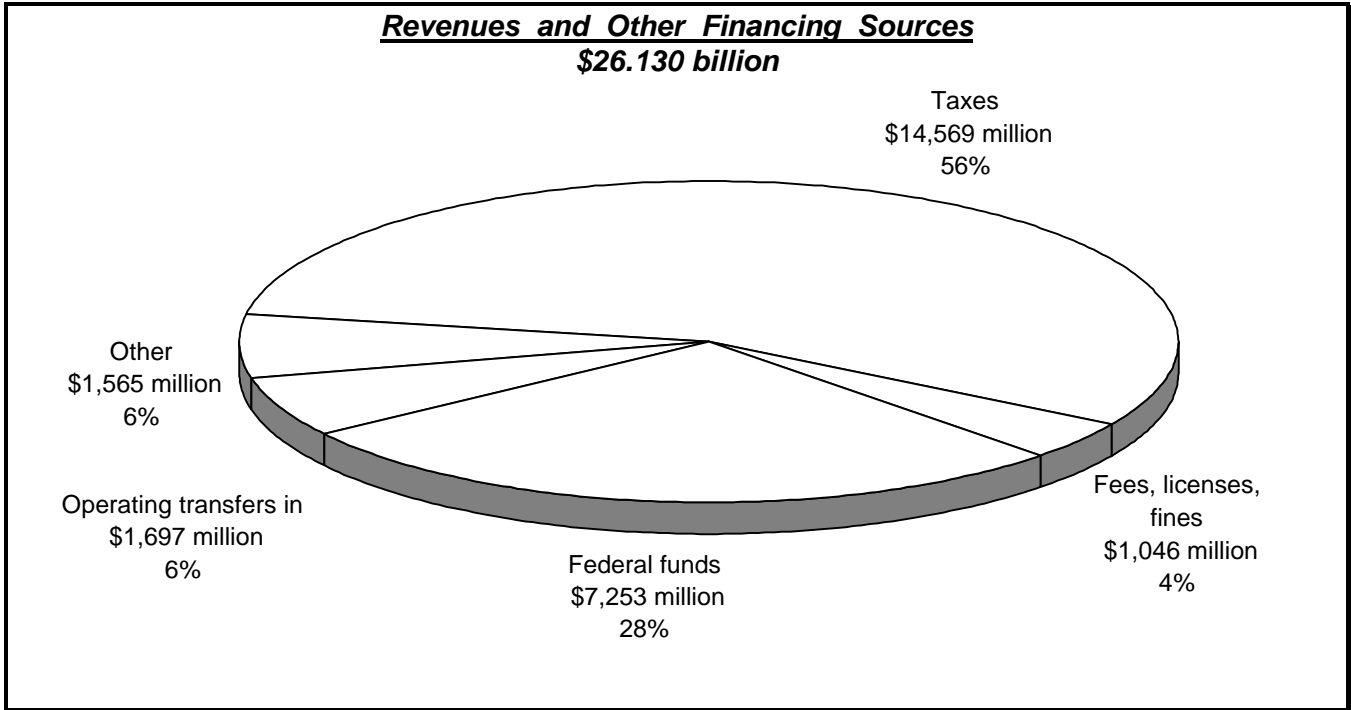
Respectfully submitted,



Edward Renfrow
State Controller

December 4, 2000

General Governmental
General, Special Revenue, and Capital Projects Funds
For the Fiscal Year Ended June 30, 2000



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, 1999

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.



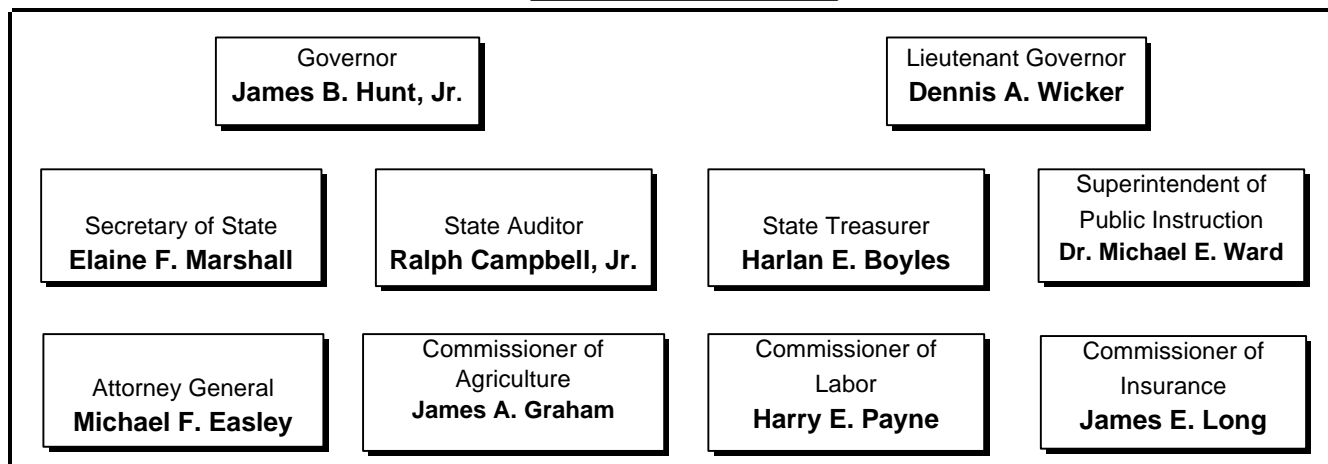
Cary Brubaker
President

Jeffrey L. Esch
Executive Director

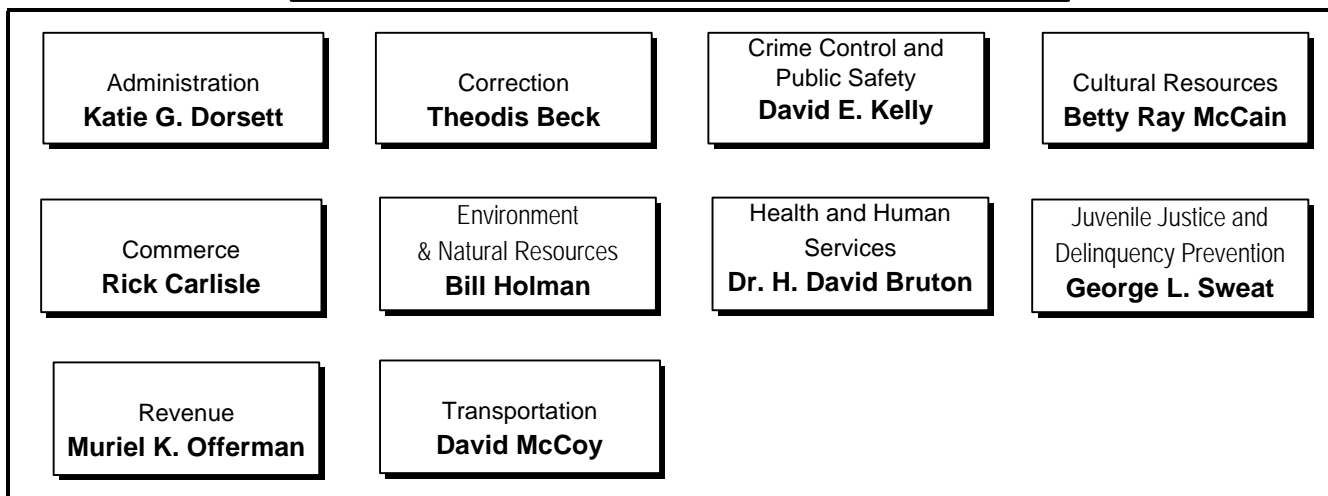
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



Cabinet Secretaries — Appointed by the Governor



Appointed by Governor, confirmed by Legislature

Office of the
 State Controller
Edward Renfrow
State Controller

State Board
 of Education
Phillip J. Kirk, Jr.
Chairman

**Appointed by State Board
of Community Colleges**

H. Martin Lancaster
President

**Appointed by University
Board of Governors**

Molly C. Broad
President

LEGISLATIVE BRANCH

JUDICIAL BRANCH

General Assembly

<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Senate</div> <p>President Lieutenant Governor</p> <p>President Pro Tempore Marc Basnight</p> <p>Deputy Pres. Pro Tempore Frank W. Ballance, Jr.</p> <p>Majority Leader Roy A. Cooper, III</p> <p>Minority Leader Patrick J. Ballentine</p>	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">House of Representatives</div> <p>Speaker James B. Black</p> <p>Speaker Pro Tempore Joe Hackney</p> <p>Majority Leader Philip A. Baddour</p> <p>Minority Leader Richard T. Morgan</p>
--	--

North Carolina Supreme Court

Chief Justice
Henry E. Frye

Associate Justices
Franklin E. Freeman, Jr.
I. Beverly Lake, Jr.
Robert F. Orr
Mark D. Martin
Sarah Parker
George L. Wainwright, Jr.

Administrative
Office of the Courts
Judge Thomas W. Ross
Director

Component Units

<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">University of North Carolina System</div> <div style="border: 1px solid black; padding: 10px;">Community Colleges</div>	<div style="border: 1px solid black; padding: 10px;">Proprietary Funds</div>	<div style="border: 1px solid black; padding: 10px;">Golden L.E.A.F. Foundation</div>
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FINANCIAL SECTION



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street, Raleigh, NC
Mailing Address: 20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us/osa>

Independent Auditor's Report

The Honorable James B. Hunt, Jr., Governor
The General Assembly of North Carolina

We have audited the accompanying general purpose financial statements of the State of North Carolina as of and for the year ended June 30, 2000. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the 401-K Supplemental Retirement Income Plan, which represent 4 percent and 7 percent, respectively, of the assets and revenues of the pension trust funds; the financial statements of the North Carolina Housing Finance Agency, which represent 36 percent and 7 percent, respectively, of the assets and revenues of the proprietary component units; nor the financial statements of the State Education Assistance Authority, which represent 34 percent and 6 percent, respectively, of the assets and revenues of the proprietary component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards 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 401-K Supplemental Retirement Income Plan were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of North Carolina as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we will also issue our report dated December 4, 2000 on our consideration of the State of North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The report on compliance and internal control will be published at a later date in the State of North Carolina's *Single Audit Report*.

The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

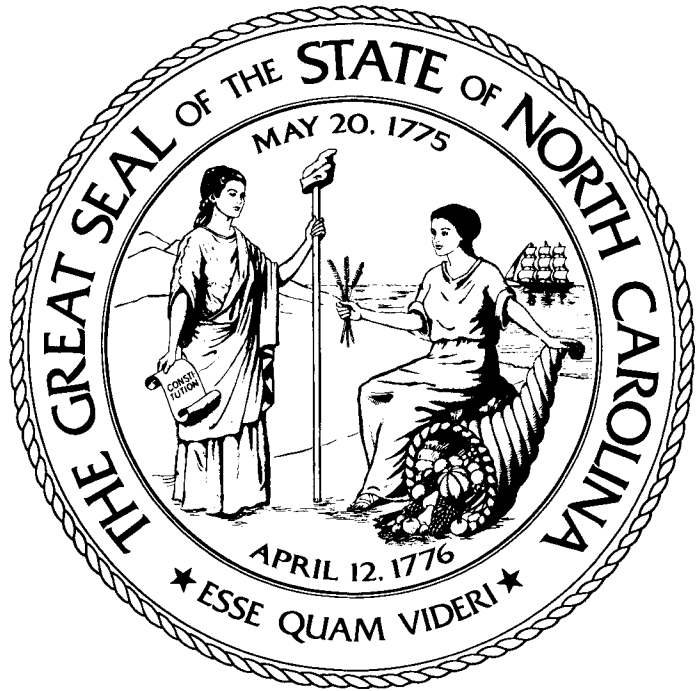
The introductory and statistical sections, identified in the table of contents, were not audited by us, and accordingly, we express no opinion thereon.



Ralph Campbell, Jr.
State Auditor

December 4, 2000

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*GENERAL
PURPOSE
FINANCIAL
STATEMENTS*

**ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
COMBINED BALANCE SHEET**

June 30, 2000

(Dollars in Thousands)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
ASSETS AND OTHER DEBITS						
Cash and cash equivalents (Note 4).....	\$ 1,399,656	\$ 2,526,683	\$ 217,507	\$ 37,508	\$ 88,204	\$ 1,505,659
Investments (Note 4).....	64,852	—	—	26,012	210,827	62,974,575
Securities lending collateral (Note 4).....	2,088,062	1,097,698	—	20,182	44,340	5,167,725
Deposit with Federal government (Note 4).....	—	—	—	—	—	1,240,079
Receivables, net:						
Taxes receivable.....	697,497	109,352	—	—	—	235,704
Accounts receivable.....	97,164	12,460	27	94	22,582	19,377
Intergovernmental receivables.....	620,490	99,805	1,109	8,077	666	4,597
Interest receivable.....	16,645	13,260	28	141	60	21,743
Premiums receivable.....	—	—	—	866	53	—
Contributions receivable.....	—	—	—	888	1,398	144,818
Other receivables.....	—	9,182	—	—	—	—
Due from other funds (Note 8).....	16,344	160,132	1,935	—	36,406	8,309
Due from component units (Note 8).....	22,612	—	—	—	1,676	1,223
Due from primary government (Note 8).....	—	—	—	—	—	—
Advances to component units (Note 8).....	42,000	—	—	—	—	25,000
Notes receivable.....	3,011	117,335	—	—	—	406,995
Inventories.....	49,488	93,086	—	375	12,748	1,672
Prepaid items.....	—	74	—	1,366	—	—
Fixed assets (Note 5).....	—	—	—	21,779	188,858	—
Patents.....	—	—	—	—	—	—
Goodwill.....	—	—	—	—	—	—
Sureties.....	—	46,784	—	—	—	507,139
Amount available in other funds.....	—	—	—	—	—	—
Amount to be provided for retirement of general long-term obligations.....	—	—	—	—	—	—
Total Assets and Other Debits.....	\$ 5,117,821	\$ 4,285,851	\$ 220,606	\$ 117,288	\$ 607,818	\$ 72,264,615
LIABILITIES, FUND EQUITY AND OTHER CREDITS						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 459,481	\$ 348,872	\$ 8,640	\$ 1,101	\$ 12,081	\$ 637,368
Tax refunds payable.....	1,012,904	—	—	—	—	—
Obligations under securities lending.....	2,088,062	1,097,698	—	20,182	44,340	5,167,725
Refunds and other payables.....	—	—	—	—	—	3,203
Tax judgements payable.....	240,000	—	—	—	—	—
Due to other funds (Note 8).....	97,545	96,445	90	13	14,276	14,757
Due to component units (Note 8).....	11,507	33,805	—	—	1,290	14,455
Due to primary government (Note 8).....	—	—	—	—	—	—
Advance from primary government (Note 8).....	—	—	—	—	—	—
Obligations under reverse repurchase agreements.....	—	—	—	—	—	—
Contracts payable.....	—	—	—	—	—	—
Notes payable (Note 7).....	—	—	—	—	—	—
Claims and benefits payable.....	536,538	38	—	28,783	2,176	85,880
Intergovernmental payable.....	—	—	—	—	—	—
Capital leases payable (Note 6).....	—	—	—	—	—	—
Bonds payable (Note 7).....	—	—	—	—	—	—
Interest payable.....	4	—	—	—	—	—
Deposits payable.....	5	121,751	5,182	—	75	759,526
Funds held for others.....	—	—	—	—	—	—
Distributions payable.....	—	—	—	—	—	5,473
Accrued vacation leave.....	—	—	—	285	3,094	—
Deferred revenue.....	406,100	10,894	—	3,490	2,094	11,592
Total Liabilities.....	4,852,146	1,709,503	13,912	53,854	79,426	6,699,979
Fund Equity and Other Credits:						
Contributed capital.....	—	—	—	46,757	61,759	—
Retained earnings.....	—	—	—	16,677	466,633	—
Investment in fixed assets.....	—	—	—	—	—	—
Fund balances:						
Reserved/restricted (Note 15).....	330,509	315,765	56,555	—	—	64,043,627
Unreserved/unrestricted (Note 15).....	(64,834)	2,260,583	150,139	—	—	1,521,009
Total Fund Equity and Other Credits.....	265,675	2,576,348	206,694	63,434	528,392	65,564,636
Total Liabilities, Fund Equity and Other Credits.....	\$ 5,117,821	\$ 4,285,851	\$ 220,606	\$ 117,288	\$ 607,818	\$ 72,264,615

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

Exhibit A-1

Account Groups		TOTAL PRIMARY GOVERNMENT (Memorandum only)	Component Units			TOTAL REPORTING ENTITY (Memorandum only)
General Fixed Assets	General Long-Term Obligations		Governmental Golden LEAF Foundation	Proprietary	College and University	
\$ —	\$ —	\$ 5,775,217	\$ 187	\$ 504,712	\$ 1,386,752	\$ 7,666,868
—	—	63,276,266	96,372	981,798	2,271,030	66,625,466
—	—	8,418,007	—	308,369	568,560	9,294,936
—	—	1,240,079	—	—	—	1,240,079
—	—	1,042,553	—	—	—	1,042,553
—	—	151,704	—	39,186	328,396	519,286
—	—	734,744	—	10,400	206,389	951,533
—	—	51,877	—	26,730	8,362	86,969
—	—	919	—	737	—	1,656
—	—	147,104	—	4,020	2,015	153,139
—	—	9,182	—	—	—	9,182
—	—	223,126	—	—	87,546	310,672
—	—	25,511	—	—	1,677	27,188
—	—	—	—	15,104	45,953	61,057
—	—	67,000	—	—	—	67,000
—	—	527,341	—	1,782,613	86,793	2,396,747
—	—	157,369	—	790	61,606	219,765
—	—	1,440	12	6,637	28,389	36,478
3,650,480	—	3,861,117	—	186,835	6,800,990	10,848,942
—	—	—	—	693	—	693
—	—	—	—	—	3,543	3,543
—	—	553,923	—	—	—	553,923
—	85	85	—	—	—	85
—	2,783,737	2,783,737	—	—	—	2,783,737
<u>\$ 3,650,480</u>	<u>\$ 2,783,822</u>	<u>\$ 89,048,301</u>	<u>\$ 96,571</u>	<u>\$ 3,868,624</u>	<u>\$ 11,888,001</u>	<u>\$ 104,901,497</u>
\$ —	\$ —	\$ 1,467,543	\$ 65	\$ 36,006	\$ 275,122	\$ 1,778,736
—	—	1,012,904	—	—	—	1,012,904
—	—	8,418,007	—	308,369	568,560	9,294,936
—	—	3,203	—	—	—	3,203
—	58,744	298,744	—	—	—	298,744
—	—	223,126	—	—	87,546	310,672
—	—	61,057	—	116	1,561	62,734
—	—	—	—	50,437	1,664	52,101
—	—	—	—	86,000	—	86,000
—	—	—	—	—	53,409	53,409
—	—	—	—	6,838	—	6,838
—	8,797	8,797	—	1,078	43,251	53,126
—	7,208	660,623	—	351,710	16,920	1,029,253
—	—	—	—	17,564	—	17,564
—	853	853	—	6,667	4,570	12,090
—	2,509,986	2,509,986	—	1,886,866	1,027,572	5,424,424
—	—	4	—	16,335	12,510	28,849
—	—	886,539	—	—	12,002	898,541
—	—	—	—	—	470,560	470,560
—	—	5,473	—	—	—	5,473
—	198,234	201,613	—	2,392	139,932	343,937
—	—	434,170	—	14,764	31,505	480,439
—	2,783,822	16,192,642	65	2,785,142	2,746,684	21,724,533
—	—	108,516	—	178,196	—	286,712
—	—	483,310	—	905,286	—	1,388,596
3,650,480	—	3,650,480	—	—	5,629,532	9,280,012
—	—	64,746,456	12	—	1,921,497	66,667,965
—	—	3,866,897	96,494	—	1,590,288	5,553,679
3,650,480	—	72,855,659	96,506	1,083,482	9,141,317	83,176,964
<u>\$ 3,650,480</u>	<u>\$ 2,783,822</u>	<u>\$ 89,048,301</u>	<u>\$ 96,571</u>	<u>\$ 3,868,624</u>	<u>\$ 11,888,001</u>	<u>\$ 104,901,497</u>

**ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS,
AND DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

For the Fiscal Year Ended June 30, 2000

Exhibit A-2

(Dollars in Thousands)

	Governmental Fund Types			Fiduciary	TOTAL	Component	TOTAL
	General	Special Revenue	Capital Projects	Fund Type	PRIMARY	Unit	REPORTING
				Expendable Trust	GOVERNMENT (Memorandum only)	Golden LEAF Foundation	ENTITY (Memorandum only)
Revenues:							
Taxes.....	\$ 12,808,158	\$ 1,760,946	\$ —	\$ 354,265	\$ 14,923,369	\$ —	\$ 14,923,369
Federal funds.....	6,156,189	1,078,187	18,906	10,790	7,264,072	—	7,264,072
Local funds.....	482,387	28,963	—	90	511,440	—	511,440
Investment earnings.....	323,645	176,926	283	220,132	720,986	2,011	722,997
Interest earnings on loans.....	—	5,356	—	—	5,356	—	5,356
Sales and services.....	70,069	24,327	355	32,421	127,172	—	127,172
Sale, rental, and lease of property.....	8,253	16,785	21	452	25,511	—	25,511
Fees, licenses, fines, and settlements....	209,674	836,367	1	7,483	1,053,525	—	1,053,525
Contributions, gifts, and grants.....	15,454	41,545	22,555	31,113	110,667	—	110,667
Funds escheated.....	—	—	—	25,656	25,656	—	25,656
Miscellaneous.....	135,908	10,058	1,850	404	148,220	—	148,220
Total revenues.....	<u>20,209,737</u>	<u>3,979,460</u>	<u>43,971</u>	<u>682,806</u>	<u>24,915,974</u>	<u>2,011</u>	<u>24,917,985</u>
Expenditures:							
Current:							
General government.....	1,174,887	54,626	—	8,155	1,237,668	—	1,237,668
Education.....	5,966,167	708,590	—	21,337	6,696,094	—	6,696,094
Health and human services.....	8,355,773	55,252	—	2,404	8,413,429	—	8,413,429
Economic development.....	102,238	326,581	—	—	428,819	209	429,028
Environment and natural resources....	202,631	168,607	—	8,030	379,268	—	379,268
Public safety, corrections, and regulation.....	1,823,377	176,517	—	30,339	2,030,233	—	2,030,233
Transportation.....	—	2,598,605	—	—	2,598,605	—	2,598,605
Agriculture.....	71,689	72,247	—	4,778	148,714	—	148,714
Claims and benefits.....	—	—	—	499,786	499,786	—	499,786
Tax judgements.....	440,000	—	—	—	440,000	—	440,000
Capital outlay.....	—	—	159,241	—	159,241	—	159,241
Debt service:							
Principal retirement.....	125,259	16,675	—	—	141,934	—	141,934
Interest.....	112,010	10,933	—	—	122,943	—	122,943
Total expenditures.....	<u>18,374,031</u>	<u>4,188,633</u>	<u>159,241</u>	<u>574,829</u>	<u>23,296,734</u>	<u>209</u>	<u>23,296,943</u>
Excess revenues over (under) expenditures.....	<u>1,835,706</u>	<u>(209,173)</u>	<u>(115,270)</u>	<u>107,977</u>	<u>1,619,240</u>	<u>1,802</u>	<u>1,621,042</u>
Other Financing Sources (Uses):							
Operating transfers in.....	417,871	1,031,010	124,994	23,538	1,597,413	—	1,597,413
Operating transfers from primary government.....	—	—	—	—	—	94,704	94,704
Operating transfers from component units.....	101,356	20,839	907	—	123,102	—	123,102
Operating transfers out.....	(712,401)	(784,519)	(80,060)	(37,806)	(1,614,786)	—	(1,614,786)
Operating transfers to component units.....	(2,500,273)	(121,658)	—	(14,455)	(2,636,386)	—	(2,636,386)
Proceeds from capital leases.....	—	339	—	—	339	—	339
Proceeds from bond sale.....	—	200,000	—	—	200,000	—	200,000
Total other financing sources (uses).....	<u>(2,693,447)</u>	<u>346,011</u>	<u>45,841</u>	<u>(28,723)</u>	<u>(2,330,318)</u>	<u>94,704</u>	<u>(2,235,614)</u>
Excess revenues and other sources over (under) expenditures and other uses...	(857,741)	136,838	(69,429)	79,254	(711,078)	96,506	(614,572)
Fund balances — July 1 (Note 16).....	1,143,922	2,480,299	277,427	2,450,138	6,351,786	—	6,351,786
Restatements (Note 16).....	(13,669)	(29,304)	(1,287)	(9)	(44,269)	—	(44,269)
Residual equity transfers in (Note 17)....	21,921	—	—	—	21,921	—	21,921
Residual equity transfers out (Note 17)..	(30,141)	(17,861)	(17)	(547)	(48,566)	—	(48,566)
Increase (decrease) in reserve for related assets.....	1,383	6,376	—	125	7,884	—	7,884
Fund balances — June 30.....	<u>\$ 265,675</u>	<u>\$ 2,576,348</u>	<u>\$ 206,694</u>	<u>\$ 2,528,961</u>	<u>\$ 5,577,678</u>	<u>\$ 96,506</u>	<u>\$ 5,674,184</u>

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

GENERAL FUND AND SPECIAL REVENUE FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
UNRESERVED FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)

For the Fiscal Year Ended June 30, 2000

Exhibit A-3

(Dollars in Thousands)

	General Fund			Special Revenue Funds		
	<i>Final Budget</i>	<i>Actual</i>	<i>Variance- Favorable (Unfavorable)</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance- Favorable (Unfavorable)</i>
Revenues:						
Taxes:						
Individual income.....	\$ 7,121,400	\$ 7,080,106	\$ (41,294)	\$ —	\$ —	\$ —
Corporate income.....	829,200	719,242	(109,958)	—	—	—
Sales and use.....	3,374,300	3,354,898	(19,402)	—	—	—
Franchise.....	410,900	490,979	80,079	—	—	—
Insurance.....	305,700	273,367	(32,333)	—	—	—
Beverage.....	162,200	166,372	4,172	—	—	—
Intangibles.....	—	19	19	—	—	—
Other.....	264,300	305,995	41,695	—	—	—
Non-Tax:						
Fees, licenses and fines.....	127,100	101,535	(25,565)	—	—	—
Investment income.....	236,200	208,320	(27,880)	—	—	—
Disproportionate share receipts.....	105,000	105,000	—	—	—	—
Other.....	156,000	145,476	(10,524)	—	—	—
Transfers in.....	183,600	183,600	—	—	—	—
Departmental:						
Federal funds.....	6,280,906	5,659,377	(621,529)	298,756	223,578	(75,178)
Local funds.....	717,440	632,913	(84,527)	11,713	11,375	(338)
Inter-agency grants and allocations.....	50,075	42,393	(7,682)	14,925	15,316	391
Intra-governmental transactions.....	2,667,189	2,622,092	(45,097)	291,801	260,986	(30,815)
Sales and services.....	72,787	68,499	(4,288)	8,229	8,779	550
Sale, rental and lease of property.....	6,165	5,836	(329)	4,272	2,371	(1,901)
Fees, licenses and fines.....	135,403	135,479	76	97,125	89,879	(7,246)
Contributions, gifts and grants.....	34,580	26,717	(7,863)	546	385	(161)
Miscellaneous.....	113,583	90,878	(22,705)	2,854	5,606	2,752
Universities.....	514,232	499,008	(15,224)	—	—	—
Total Revenues.....	<u>23,868,260</u>	<u>22,918,101</u>	<u>(950,159)</u>	<u>730,221</u>	<u>618,275</u>	<u>(111,946)</u>
Expenditures:						
Current:						
General government.....	1,978,952	1,952,751	26,201	75,939	69,050	6,889
Education.....	7,510,492	7,259,631	250,861	—	—	—
Health and human services.....	10,070,307	9,661,202	409,105	693	673	20
Environment and natural resources.....	304,590	269,844	34,746	112,469	101,139	11,330
Economic development.....	141,766	131,908	9,858	344,750	260,468	84,282
Public safety, corrections, and regulation...	2,124,286	1,928,736	195,550	210,277	190,147	20,130
Transportation.....	20,974	20,974	—	—	—	—
Agriculture.....	83,067	79,913	3,154	—	—	—
Capital outlay.....	167,059	167,059	—	—	—	—
Debt service.....	242,911	237,269	5,642	—	—	—
Universities.....	2,185,626	2,167,613	18,013	—	—	—
Total Expenditures.....	<u>24,830,030</u>	<u>23,876,900</u>	<u>953,130</u>	<u>744,128</u>	<u>621,477</u>	<u>122,651</u>
Excess revenues over (under) expenditures.....	(961,770)	(958,799)	2,971	<u>(\$13,907)</u>	(3,202)	<u>\$ 10,705</u>
Transfers from reserves (Note 2C).....	665,966	665,966	—	—	—	—
Transfers to reserves (Note 2C).....	—	(3,869)	(3,869)	—	—	—
Unreserved fund balances (budgetary basis) at July 1, 1999.....	<u>296,702</u>	<u>296,702</u>	<u>—</u>	—	<u>108,217</u>	—
Unreserved fund balances (budgetary basis) at June 30, 2000 (Note 2B).....	<u>\$ 898</u>	<u>\$ —</u>	<u>\$ (898)</u>	—	<u>\$ 105,015</u>	—

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

**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND
DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Types	TOTAL PRIMARY GOVERNMENT
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum only)
Operating Revenues:				
Sales and services.....	\$ 1,187	\$ 293,268	\$ 1,928	\$ 296,383
Federal funds.....	—	—	39,150	39,150
Investment earnings.....	4,524	12,184	14,007	30,715
Interest earnings on loans.....	—	—	8,904	8,904
Rental and lease earnings.....	4,046	1,440	—	5,486
Fees, licenses and fines.....	8,073	1,031	1,697	10,801
Contributions, gifts and grants.....	—	25,030	37	25,067
Insurance premiums.....	7,108	14,269	—	21,377
Miscellaneous.....	31	1,364	1,124	2,519
Total operating revenues.....	<u>24,969</u>	<u>348,586</u>	<u>66,847</u>	<u>440,402</u>
Operating Expenses:				
Personal services.....	5,918	59,168	2,460	67,546
Supplies and materials.....	560	12,791	18	13,369
Services.....	14,271	104,491	653	119,415
Interest.....	1,339	2,332	4,387	8,058
Cost of goods sold.....	451	35,127	—	35,578
Depreciation/amortization.....	1,451	32,659	—	34,110
Grants to local governments.....	—	—	8,585	8,585
Claims and benefits.....	102,972	26,037	—	129,009
Insurance and bonding.....	2,288	11,013	—	13,301
Other.....	1,133	44,765	441	46,339
Total operating expenses.....	<u>130,383</u>	<u>328,383</u>	<u>16,544</u>	<u>475,310</u>
Operating income (loss).....	(105,414)	20,203	50,303	(34,908)
Net Nonoperating Revenues (Expenses).....	<u>71,385</u>	<u>(2,637)</u>	<u>—</u>	<u>68,748</u>
Income (loss) before operating transfers.....	<u>(34,029)</u>	<u>17,566</u>	<u>50,303</u>	<u>33,840</u>
Operating Transfers:				
Transfers in.....	20,896	2,417	8,540	31,853
Transfers from component units.....	—	—	—	—
Transfers from primary government.....	—	—	—	—
Transfers out.....	(618)	(5,201)	(8,661)	(14,480)
Transfers to component units.....	(16)	—	—	(16)
Transfers to primary government.....	—	—	—	—
Total operating transfers in (out).....	<u>20,262</u>	<u>(2,784)</u>	<u>(121)</u>	<u>17,357</u>
Net income (loss).....	<u>(13,767)</u>	<u>14,782</u>	<u>50,182</u>	<u>51,197</u>
Excess of revenues over (under) expenditures from governmental operations.....	—	—	—	—
Fund equity — July 1 (Note 16).....	71,577	510,340	456,261	1,038,178
Restatements (Note 16).....	10	1,265	—	1,275
Residual equity transfers out.....	—	—	(6,500)	(6,500)
Increase (decrease) in contributed capital.....	5,614	2,005	—	7,619
Fund equity — June 30.....	<u>\$ 63,434</u>	<u>\$ 528,392</u>	<u>\$ 499,943</u>	<u>\$ 1,091,769</u>

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

Exhibit A-4

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
\$ 73,970	\$ 370,353
—	39,150
55,908	86,623
126,652	135,556
26,819	32,305
3,188	13,989
50,067	75,134
763,333	784,710
6,643	9,162
<u>1,106,580</u>	<u>1,546,982</u>
42,093	109,639
5,221	18,590
59,728	179,143
101,323	109,381
—	35,578
17,485	51,595
—	8,585
860,158	989,167
1,118	14,419
34,523	80,862
<u>1,121,649</u>	<u>1,596,959</u>
(15,069)	(49,977)
<u>87,230</u>	<u>155,978</u>
<u>72,161</u>	<u>106,001</u>
—	31,853
10,192	10,192
180,684	180,684
—	(14,480)
(353)	(369)
<u>(19,971)</u>	<u>(19,971)</u>
<u>170,552</u>	<u>187,909</u>
242,713	293,910
(2,212)	(2,212)
826,017	1,864,195
1,839	3,114
—	(6,500)
15,125	22,744
<u>\$ 1,083,482</u>	<u>\$ 2,175,251</u>

**ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS, AND
DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	<i>Proprietary Fund Types</i>		<i>Fiduciary</i>	<i>TOTAL</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Fund Types Nonexpendable Trust Funds</i>	<i>PRIMARY GOVERNMENT (Memorandum only)</i>
Cash Provided From (Used For) Operations:				
Operating income (loss).....	\$ (105,414)	\$ 20,203	\$ 50,303	\$ (34,908)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation/amortization.....	1,451	32,659	—	34,110
Investment earnings.....	(4,524)	(12,184)	(14,007)	(30,715)
Securities lending fees.....	1,339	2,332	4,387	8,058
Mortgage/loan/note principal repayments.....	—	—	19,584	19,584
Loan sales.....	—	—	—	—
Mortgages/loans/notes issued.....	—	—	(65,249)	(65,249)
Mortgage/loan/note cancellation and write-offs.....	—	—	—	—
Allowances and uncollectible accounts.....	—	—	—	—
Restatements and adjustments to cash.....	218	1,260	—	1,478
Equipment donated to counties.....	—	—	—	—
Write-off of abandoned projects.....	—	—	—	—
Development stage expense.....	—	—	—	—
Nonoperating miscellaneous income/expense.....	(3)	459	—	456
Capitalized interest.....	—	—	—	—
Interest expense.....	—	—	—	—
(Increases) decreases in assets:				
Receivables.....	(6,980)	(1,468)	(285)	(8,733)
Due from other funds.....	—	(8,403)	—	(8,403)
Due from component units.....	—	(238)	—	(238)
Due from primary government.....	—	—	—	—
Inventories.....	(17)	(116)	—	(133)
Prepaid items.....	(76)	882	—	806
Patents.....	—	—	—	—
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities.....	324	2,324	(57)	2,591
Due to other funds.....	4	7,650	1	7,655
Due to component units.....	—	1,106	—	1,106
Due to primary government.....	—	—	—	—
Claims and benefits payable.....	14,856	(155)	—	14,701
Contracts payable.....	—	—	—	—
Deposits payable.....	—	5	—	5
Accrued vacation leave.....	7	263	—	270
Deferred revenue.....	223	(844)	—	(621)
Total cash provided from (used for) operations.....	<u>(98,592)</u>	<u>45,735</u>	<u>(5,323)</u>	<u>(58,180)</u>
Cash Provided From (Used For) Noncapital Financing Activities:				
Proceeds from sale of bonds/notes.....	—	—	—	—
Repayment of bond/note principal.....	—	—	—	—
Interest payments on bonds and notes.....	—	—	—	—
Bond issuance cost.....	—	—	—	—
Grants.....	68,905	—	—	68,905
Grants, aid and subsidies.....	—	—	—	—
Operating transfers in.....	20,896	2,417	8,540	31,853
Operating transfers from component units.....	—	—	—	—
Operating transfers from primary government.....	—	—	—	—
Operating transfers out.....	(618)	(5,201)	(8,661)	(14,480)
Operating transfers to component units.....	(16)	—	—	(16)
Operating transfers to primary government.....	—	—	—	—
Nonoperating cash donations.....	1,315	—	—	1,315
Increase in contributed capital.....	4,500	507	—	5,007
Decrease in contributed capital.....	—	(5)	—	(5)
Residual equity transfers out.....	—	—	(6,500)	(6,500)
Total cash provided from (used for) noncapital financing activities..	<u>94,982</u>	<u>(2,282)</u>	<u>(6,621)</u>	<u>86,079</u>

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

Exhibit A-5

<u>Component Units</u> <u>Proprietary Fund Types</u>	<u>TOTAL REPORTING ENTITY</u> <u>(Memorandum only)</u>
\$ (15,069)	\$ (49,977)
17,485	51,595
(55,908)	(86,623)
—	8,058
345,939	365,523
1,725	1,725
(645,415)	(710,664)
6,624	6,624
3,161	3,161
411	1,889
35	35
19	19
(580)	(580)
(13,202)	(12,746)
(5,842)	(5,842)
65,123	65,123
(11,266)	(19,999)
—	(8,403)
—	(238)
(573)	(573)
(39)	(172)
599	1,405
(385)	(385)
11,673	14,264
—	7,655
116	1,222
20,103	20,103
(1,139)	13,562
(172)	(172)
—	5
243	513
<u>2,196</u>	<u>1,575</u>
<u>(274,138)</u>	<u>(332,318)</u>
465,245	465,245
(136,366)	(136,366)
(66,514)	(66,514)
(6,105)	(6,105)
3,310	72,215
(147,437)	(147,437)
—	31,853
10,192	10,192
180,684	180,684
—	(14,480)
(353)	(369)
(53)	(53)
186	1,501
975	5,982
(322)	(327)
—	(6,500)
<u>303,442</u>	<u>389,521</u>

Continued

**ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS, AND
DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF CASH FLOWS (continued)**

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	<i>Proprietary Fund Types</i>		<i>Fiduciary</i>	<i>TOTAL</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Fund Types</i> <i>Nonexpendable</i> <i>Trust Funds</i>	<i>PRIMARY</i> <i>GOVERNMENT</i> <i>(Memorandum</i> <i>only)</i>
Cash Provided From (Used For)				
Capital Financing Activities:				
Acquisition of fixed assets.....	(65)	(43,537)	—	(43,602)
Proceeds from the sale of fixed assets.....	6	1,901	—	1,907
Increase in contributed capital.....	1	—	—	1
Repayment of bond/note principal.....	—	—	—	—
Interest payments on bonds, notes and capital leases.....	—	—	—	—
Principal payment on capital leases.....	—	—	—	—
Insurance recoveries.....	—	13	—	13
Dredging costs.....	—	—	—	—
Total cash provided from (used for).....				
capital financing activities.....	<u>(58)</u>	<u>(41,623)</u>	<u>—</u>	<u>(41,681)</u>
Cash Provided From (Used For)				
Investment Activities:				
Proceeds from the sale/maturities of non-State				
Treasurer investments.....	2,881	—	57	2,938
Redemptions from the State Treasurer				
Long-Term Investment Portfolio.....	—	—	7,160	7,160
Purchase of non-State Treasurer investments.....	(4,208)	—	(49)	(4,257)
Purchase into State Treasurer				
Long-Term Investment Portfolio.....	—	(3,500)	(1,795)	(5,295)
Investment earnings.....	2,351	821	7,830	11,002
Total cash provided from (used for)				
investment activities.....	<u>1,024</u>	<u>(2,679)</u>	<u>13,203</u>	<u>11,548</u>
Net increase (decrease) in cash				
and cash equivalents.....	(2,644)	(849)	1,259	(2,234)
Deficit from governmental operations.....	—	—	—	—
Cash and cash equivalents at July 1, as restated.....	40,152	89,053	145,491	274,696
Cash and cash equivalents at June 30.....	<u>\$ 37,508</u>	<u>\$ 88,204</u>	<u>\$ 146,750</u>	<u>\$ 272,462</u>
Noncash Investing, Capital,				
and Financing Activities:				
Noncash distributions from the State Treasurer				
Long-Term Investment Portfolio.....	\$ 969	\$ 9,045	\$ 1,662	\$ 11,676
Increase in contributed capital.....	1,113	1,503	—	2,616
Assets acquired through the assumption of a				
liability.....	20,182	44,340	86,488	151,010
Change in construction in progress as a result				
of accrued accounts payable.....	—	—	—	—
Transfer of fixed assets.....	—	(400)	—	(400)
Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:				
Expendable Trust Funds.....	\$ 277,972			
Nonexpendable Trust Funds.....	146,750			
Pension Trust Funds.....	296,109			
Investment Trust Fund.....	75,824			
Agency Funds.....	709,004			
Total.....	<u>\$ 1,505,659</u>			

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

Exhibit A-5

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
(15,180)	(58,782)
23	1,930
14,272	14,273
(1,501)	(1,501)
(545)	(545)
(3,054)	(3,054)
—	13
<u>(406)</u>	<u>(406)</u>
<u>(6,391)</u>	<u>(48,072)</u>
997,006	999,944
1,362	8,522
(1,043,417)	(1,047,674)
(7,750)	(13,045)
<u>48,354</u>	<u>59,356</u>
<u>(4,445)</u>	<u>7,103</u>
18,468	16,234
2,212	2,212
484,032	758,728
<u>\$ 504,712</u>	<u>\$ 777,174</u>
\$ 12,892	\$ 24,568
200	2,816
315,866	466,876
1,885	1,885
—	(400)

**PENSION TRUST FUNDS
COMBINING STATEMENT OF PLAN NET ASSETS
ALL PENSION PLANS**

June 30, 2000

Exhibit A-6

(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	401(k) Supplemental Retirement Income Plan	Totals
ASSETS								
Cash and cash equivalents....	\$ 79,748	\$ 1,130	\$ 164	\$ 165	\$ 198	\$ 9,337	\$ 205,367	\$ 296,109
Investments (Note 9, 10):								
Bank investment contracts.	—	—	—	—	—	—	327,038	327,038
Mutual funds.....	—	—	—	—	—	—	1,665,932	1,665,932
State Treasurer investment pool.....	46,472,883	345,775	26,921	260,423	48,536	11,709,329	—	58,863,867
Securities lending collateral....	3,289,150	25,125	2,091	18,775	3,769	840,612	—	4,179,522
Receivables:								
Accounts receivable.....	492	—	—	—	—	407	—	899
Interest receivable.....	609	6	1	1	2	119	394	1,132
Contributions receivable....	99,970	942	89	—	—	30,890	11,251	143,142
Notes receivable.....	—	—	—	—	—	—	98,829	98,829
Total Assets.....	<u>49,942,852</u>	<u>372,978</u>	<u>29,266</u>	<u>279,364</u>	<u>52,505</u>	<u>12,590,694</u>	<u>2,308,811</u>	<u>65,576,470</u>
LIABILITIES								
Obligations under securities lending.....	3,289,150	25,125	2,091	18,775	3,769	840,612	—	4,179,522
Refunds and other payables	—	—	—	—	—	—	3,203	3,203
Due to other funds (Note 8)....	—	—	—	1	—	—	—	1
Benefits payable.....	43,563	—	—	—	3	153	—	43,719
Total Liabilities.....	<u>3,332,713</u>	<u>25,125</u>	<u>2,091</u>	<u>18,776</u>	<u>3,772</u>	<u>840,765</u>	<u>3,203</u>	<u>4,226,445</u>
FUND BALANCE								
Reserved for employees' pension benefits (Note 15).	<u>\$ 46,610,139</u>	<u>\$ 347,853</u>	<u>\$ 27,175</u>	<u>\$ 260,588</u>	<u>\$ 48,733</u>	<u>\$ 11,749,929</u>	<u>\$ 2,305,608</u>	<u>\$ 61,350,025</u>

A schedule of funding progress for each defined benefit plan is presented on page 116 .

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

PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
ALL PENSION PLANS

For the Fiscal Year Ended June 30, 2000

Exhibit A-7

(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	401(k) Supplemental Retirement Income Plan	Totals
Additions:								
Contributions:								
Employer.....	\$ 739,393	\$ 9,122	\$ 812	\$ —	\$ —	\$ 171,754	\$ 77,481	\$ 998,562
Plan members.....	561,302	3,703	250	2,676	—	209,687	142,430	920,048
Other contributions.....	—	—	—	12,105	2,545	—	—	14,650
Total contributions.....	<u>1,300,695</u>	<u>12,825</u>	<u>1,062</u>	<u>14,781</u>	<u>2,545</u>	<u>381,441</u>	<u>219,911</u>	<u>1,933,260</u>
Investment Income:								
Investment earnings.....	4,124,773	30,509	2,367	22,767	4,200	1,032,727	301,816	5,519,159
Less investment expenses.....	<u>(214,252)</u>	<u>(1,612)</u>	<u>(134)</u>	<u>(1,193)</u>	<u>(237)</u>	<u>(55,002)</u>	<u>—</u>	<u>(272,430)</u>
Net investment income.....	<u>3,910,521</u>	<u>28,897</u>	<u>2,233</u>	<u>21,574</u>	<u>3,963</u>	<u>977,725</u>	<u>301,816</u>	<u>5,246,729</u>
Fees, licenses and fines.....	—	—	—	—	—	4,201	1,713	5,914
Interest earnings on loans.....	—	—	—	—	—	—	7,984	7,984
Miscellaneous additions.....	1,854	—	—	1	—	38	—	1,893
Total additions.....	<u>5,213,070</u>	<u>41,722</u>	<u>3,295</u>	<u>36,356</u>	<u>6,508</u>	<u>1,363,405</u>	<u>531,424</u>	<u>7,195,780</u>
Deductions:								
Administrative expense.....	5,637	42	6	498	24	2,061	5,642	13,910
Benefits.....	1,524,316	13,276	1,028	13,569	1,871	322,460	88,671	1,965,191
Refund of contributions.....	82,034	40	20	385	—	56,337	—	138,816
Other deductions.....	3	37	—	—	—	1	—	41
Total deductions.....	<u>1,611,990</u>	<u>13,395</u>	<u>1,054</u>	<u>14,452</u>	<u>1,895</u>	<u>380,859</u>	<u>94,313</u>	<u>2,117,958</u>
Net increase (decrease)	3,601,080	28,327	2,241	21,904	4,613	982,546	437,111	5,077,822
Fund balance reserved for employees' pension benefits								
Beginning of the year (Note 16)	<u>43,009,059</u>	<u>319,526</u>	<u>24,934</u>	<u>238,684</u>	<u>44,120</u>	<u>10,767,383</u>	<u>1,868,497</u>	<u>56,272,203</u>
End of year.....	<u>\$ 46,610,139</u>	<u>\$ 347,853</u>	<u>\$ 27,175</u>	<u>\$ 260,588</u>	<u>\$ 48,733</u>	<u>\$ 11,749,929</u>	<u>\$ 2,305,608</u>	<u>\$61,350,025</u>

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

**INVESTMENT TRUST FUND
STATEMENT OF NET ASSETS**

June 30, 2000

Exhibit A-8

(Dollars in Thousands)

	<i>Investment Trust Fund</i>
	<u> </u>
ASSETS	
Cash and cash equivalents.....	\$ 75,824
Investments.....	1,098,379
Securities lending collateral.....	692,892
Receivables:	
Interest receivable.....	<u>16,977</u>
Total Assets.....	<u>1,884,072</u>
LIABILITIES	
Obligations under securities lending.....	692,892
Distributions payable.....	<u>5,473</u>
Total Liabilities.....	<u>698,365</u>
NET ASSETS	
Held in trust for pool participants.....	<u><u>\$ 1,185,707</u></u>

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

**INVESTMENT TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS**

For the Fiscal Year Ended June 30, 2000

*Exhibit A-9**(Dollars in Thousands)*

	<i>Investment Trust Fund</i>
Net increase in net assets resulting from operations:	
Revenues	
Investment income.....	\$ 102,354
Expenses	
Investment expenses.....	<u>34,669</u>
Net increase in net assets resulting from operations.....	67,685
Distributions to participants:	
Distributions paid and payable.....	(67,685)
Share transactions:	
Reinvestment of distributions.....	65,761
Net share purchases/(redemptions).....	<u>373,941</u>
Total increase in net assets.....	439,702
Net assets:	
Beginning of the year (Note 16).....	<u>746,005</u>
End of the year.....	<u><u>\$ 1,185,707</u></u>

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

**COMPONENT UNITS — COLLEGE AND UNIVERSITY FUNDS
 COMBINED STATEMENT OF CHANGES IN FUND EQUITY**

For the Fiscal Year Ended June 30, 2000

Exhibit A-10

*(Dollars in Thousands)***Revenues and Other Additions:**

Tuition and fees.....	\$ 562,860
Federal appropriations.....	22,138
County appropriations.....	120,951
Federal contracts and grants.....	707,654
State contracts and grants.....	103,575
Local contracts and grants.....	114,038
Nongovernmental grants and contracts.....	156,495
Gifts.....	170,215
Endowment income.....	23,868
Sales and services.....	932,810
Investment earnings.....	224,992
Expended for plant facilities.....	367,152
Retirement of indebtedness.....	45,459
Income from hospital operations.....	704,168
Other revenues and additions.....	54,226
Total Revenues and Other Additions.....	<u>4,310,601</u>

Expenditures and Other Deductions:

Educational and general.....	3,882,865
Auxiliary enterprises.....	525,393
Internal service.....	36,465
Independent operations.....	13,818
Professional clinical services.....	238,969
Indirect cost recovered.....	100,001
Refunded to grantors.....	763
Administrative and collection costs, loan cancellation and bad debts.....	3,006
Expended for plant facilities.....	330,235
Retirement of indebtedness.....	44,157
Payment to escrow agent.....	907
Interest on indebtedness.....	38,833
Disposal of plant facilities.....	76,665
Hospital operations.....	819,779
Other expenditures and deductions.....	5,301
Total Expenditures and Other Deductions.....	<u>6,117,157</u>

Transfers-Additions (Deductions):

Operating transfers from primary government.....	2,361,014
Operating transfers to primary government.....	(103,131)
Operating transfers from component units.....	353
Operating transfers to component units.....	(10,192)
Net transfers.....	<u>2,248,044</u>
Net increase in fund equity.....	441,488
Fund equity — July 1 (Note 16).....	8,708,872
Restatements (Note 16).....	(8,799)
Residual equity transfers out (Note 17).....	(244)
Fund equity — June 30.....	<u>\$ 9,141,317</u>

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

COMPONENT UNITS — COLLEGE AND UNIVERSITY FUNDS
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND TRANSFERS

For the Fiscal Year Ended June 30, 2000

Exhibit A-11

*(Dollars in Thousands)***Revenues:**

Tuition and fees.....	\$ 561,897
Federal appropriations.....	22,138
County appropriations.....	104,849
Federal contracts and grants.....	616,350
State contracts and grants.....	96,329
Local contracts and grants.....	9,350
Nongovernmental grants and contracts.....	127,476
Gifts.....	132,783
Endowment income.....	34,128
Sales and services.....	932,005
Investment earnings.....	50,106
Other revenues.....	<u>44,305</u>
Total Current Revenues.....	<u>2,731,716</u>

Expenditures:

Educational and general:

Instruction.....	1,722,641
Organized research.....	411,545
Public service.....	277,178
Academic support.....	277,821
Student services.....	153,307
Institutional support.....	383,658
Physical plant operations.....	307,793
Student financial aid.....	<u>348,922</u>
Total educational and general.....	3,882,865
Auxiliary enterprises.....	525,393
Internal service.....	36,465
Independent operations.....	13,818
Professional clinical services.....	<u>238,969</u>
Total Expenditures.....	<u>4,697,510</u>

Transfers and Additions (Deductions):

Excess of restricted receipts over revenues earned.....	1,943
Refund to grantors.....	(756)
Mandatory transfers.....	(79,513)
Non-mandatory transfers.....	(25,404)
Interinstitutional transfers.....	(2,705)
Operating transfers from primary government.....	2,174,301
Operating transfers to primary government.....	(15,064)
Operating transfers from component units.....	353
Operating transfers to component units.....	<u>(10,192)</u>
Net increase in fund equity.....	<u>\$ 77,169</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in conformity with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB), which consist of GASB Statements and Interpretations, as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements and Interpretations. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State does not apply FASB pronouncements issued after November 30, 1989 for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. The financial statements of the college and university funds have been prepared in conformity with generally accepted accounting principles for colleges and universities as prescribed by GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*. The financial statements of the North Carolina Railroad Company (Railroad), a for-profit corporation (*discretely presented proprietary component unit*), have been prepared based on FASB pronouncements. The Railroad's financial statements have been incorporated into the State's reporting entity based on the definition and display provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The financial statements are presented as of and for the fiscal year ended June 30, 2000, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 1999, 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, 1999. Occupational licensing boards have financial statements with various fiscal year ending dates.

B. Financial Reporting Entity

The financial reporting entity includes (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete.

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, 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.

As required by generally accepted accounting principles, these financial statements present the State (the primary government) and its component units. The component units are included in the financial reporting entity because of the significance of their operational or financial relationships with the State, as described below.

Discretely Presented Component Units

The component units columns in the combined financial statements include the financial data of the following organizations. They are reported as either college and university funds, governmental funds, or proprietary funds.

College and University Funds**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 thirty-two 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 there is UNC-General Administration, which is the administrative arm of the Board of Governors, the sixteen constituent universities, and UNC Hospitals. Each of the sixteen universities, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. UNC Hospitals is governed by a separate board of directors. Funding for each of the institutions of the UNC system is accomplished by State appropriations, tuition and fees, sales and services, federal grants, and private donations and grants.

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

Appalachian State University
 East Carolina University
 Elizabeth City State University
 Fayetteville State University

NOTES TO THE FINANCIAL STATEMENTS

North Carolina Agricultural and Technical State University
 North Carolina Central University
 North Carolina School of the Arts
 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
 Western Carolina University
 Winston-Salem State University
 UNC Hospitals

Community Colleges

There are currently fifty-eight 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. 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 community college is 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 following are the State's fifty-eight community colleges:

Alamance Comm. College	Asheville-Buncombe Technical Comm. College
Beaufort County Comm. College	Bladen Community 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 Technical Comm. College

Governmental Funds**The Golden L.E.A.F (Long-term Economic Advancement Foundation), Inc.**

The Golden L.E.A.F. (the "Foundation") is a legally separate nonprofit corporation created to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. The Foundation was established by the State to distribute part of the funds North Carolina receives as a result of the settlement of *State of North Carolina v. Philip Morris Incorporated, et al.* 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.

Proprietary Funds**Comprehensive Major Medical Plan (State Health Plan)**

The State Health Plan (Plan) is a component unit that provides 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 has corporate powers and is governed by a board whose members 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.

Disability Income Plan of North Carolina

The Disability Income Plan of North Carolina (Plan) is a component unit that provides disability benefits to employees of the State, most of its component units, and local boards of education that are not part of the reporting entity. The Plan has corporate powers and is governed by a fourteen-member board. Ten members are appointed by the Governor, two are appointed by the General Assembly, and two are elected State officials. 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.

North Carolina Housing Finance Agency

The North Carolina Housing Finance Agency is a legally separate organization established to administer programs to finance construction of low and moderate income housing. The Agency has a thirteen-member board of directors, with twelve appointed by either the Governor or the General Assembly. The thirteenth member is elected by the other twelve. The State can significantly influence the programs, projects, activities, and level of services of the Agency.

State Education Assistance Authority

The State Education Assistance 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

NOTES TO THE FINANCIAL STATEMENTS

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 significant operating subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

North Carolina State Ports Authority

The North Carolina State Ports Authority is a legally separate authority established to operate the State's port facilities in Wilmington and Morehead City. It is governed by an eleven-member board, all of whom are appointed by either the Governor or the General Assembly. A financial benefit/burden relationship exists between the State and the Authority.

North Carolina Railroad Company

The North Carolina Railroad Company is a legally separate, for-profit corporation owned by the State for the purpose of promoting trade, industry, and transportation within the State of North Carolina and advancing the economic interests of the State. The Railroad is governed by a 14 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.

North Carolina Global TransPark Authority

The North Carolina Global TransPark Authority (formerly North Carolina Air Cargo Airport Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the twenty-member governing board, nineteen 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 for years to come; therefore, a financial benefit/ burden relationship exists between the State and the Authority.

North Carolina Low Level Radioactive Waste Management Authority

The North Carolina Low Level Radioactive Waste Management Authority is a legally separate authority created to locate, construct and operate a regional site for the disposal of low level radioactive waste. The Authority is governed by a fifteen-member board, all of whom are appointed by either the Governor or the General Assembly. The State has the ability to influence the budget, programs, and activities of the Authority.

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate nonprofit corporation created to foster advanced programs in microelectronics and super-computing, in support of economic development and of North Carolina universities and research institutes. It is managed by a twenty-member board. Six of the members are appointed by the Governor and four serve as a result of their positions with the UNC system, a component unit of the State, one serves as a result of his position with MCNC, one is designated by the

board of trustees of Duke University, and one is designated by the board of governors of the Research Triangle Institute. These board members elect the remaining seven members. The State has the ability to impose its will since appointed members may be removed at will by the Governor and elected members may be removed at will by the MCNC board.

North Carolina Biotechnology Center

The North Carolina Biotechnology Center is a legally separate nonprofit corporation created to further economic development through the support of biotechnology research. The Center is governed by a thirty-five-member board. Fifteen of the board members are appointed by the Governor or General Assembly and four serve as a result of their positions with the UNC system, a component unit of the State. 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.

North Carolina Agricultural Finance Authority

The North Carolina Agricultural Finance Authority is a legally separate authority created to administer the financing of low-interest loans to farmers. The Authority is governed by a ten-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.

North Carolina Partnership for Children, Inc.

The North Carolina Partnership for Children, Inc., is a legally separate organization established to develop a comprehensive long-range strategic plan for early childhood development. A thirty-three-member board governs the Partnership. Certain elected state officials appoint twenty-nine of the members, while four members serve ex officio by virtue of their state positions. The State provides significant operating subsidies to the Partnership creating a benefit/burden relationship.

North Carolina Ports Railway Commission

The North Carolina Ports Railway Commission is a legally separate organization established to operate, maintain and control all railway equipment and railway operations transferred to it by the North Carolina State Ports Authority in January 1981. The Commission is governed by a five-member board, all of whom are appointed by the Governor. A financial benefit/burden relationship exists between the State and the Commission.

North Carolina Rural Rehabilitation Corporation

The North Carolina Rural Rehabilitation Corporation is a legally separate nonprofit corporation created to assist individuals and families in rural areas of the state. The Corporation is governed by a nine-member board, all of whom are appointed by the Governor or serve by virtue of their positions as state officials. The State has the ability to influence the budget, programs, and activities of the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

North Carolina Regional Economic Development

Commissions:

Northeastern North Carolina Regional Economic Development Commission

The Northeastern North Carolina Regional Economic Development Commission is a legally separate organization created to facilitate economic development and tourism in northeastern North Carolina. The Commission consists of 17 members, including the Secretary of Commerce and the Secretary of the Department of Environment and Natural Resources (or their designees), five members appointed by the 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 benefit/burden relationship.

Southeastern North Carolina Regional Economic Development Commission

The Southeastern North Carolina Regional Economic Development 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 benefit/burden relationship.

Western North Carolina Regional Economic Development Commission

The Western North Carolina Regional Economic Development 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 15 members, with five appointed by the N.C. House of Representatives, five 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 benefit/burden relationship.

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.

University of North Carolina System
Community colleges
North Carolina State Ports Authority
North Carolina Global TransPark Authority
North Carolina Low Level Radioactive Waste Management Authority
North Carolina Partnership for Children, Inc.
North Carolina Ports Railway Commission

Complete financial statements of the remaining component units, examined by independent auditors, can be obtained from the respective administrative offices of those units, listed below:

The Golden Leaf Foundation, Inc.
4825 Creekstone Drive, Suite 200
Durham, NC 27703

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

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

MCNC
P.O. Box 12889
Research Triangle Park, NC 27709-2889

State Education Assistance Authority
P.O. Box 2688
Chapel Hill, NC 27515-2688

North Carolina Railroad Company
3200 Atlantic Avenue, Suite 110
Raleigh, NC 27604-1640

Western N.C. Regional Economic
Development Commission
P.O. Box 1258
Arden, NC 28704

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

Northeastern N.C. Regional Economic
Development Commission
P.O. Box 29
Edenton, NC 27932

The North Carolina Agricultural Finance Authority, the North Carolina Rural Rehabilitation Corporation, the State Health Plan, and the Disability Income Plan of North Carolina do not issue separate financial statements.

C. Fund Accounting

The financial activities of the State and its component units are organized on a basis of individual funds and account groups, each of which is a separate accounting entity segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. The financial activities of the State and its component units accounted for in the accompanying financial statements have been classified into the following fund categories and account groups:

1. Primary Government (the State)

Governmental Funds

Governmental funds are those through which most governmental functions of the State are financed. The acquisition, use, and balances of the primary government's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income determination. The following are the State's governmental funds.

General Fund

All financial resources received and used for services traditionally provided by a state government and not required to be accounted for in other funds are accounted for in the General Fund. These services include general government; education (other than universities and community colleges); health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; and agriculture.

NOTES TO THE FINANCIAL STATEMENTS
Special Revenue Funds

Transactions related to resources obtained from specific revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes are accounted for in special revenue funds. The special revenue funds reported in this CAFR have been grouped under the following governmental functional categories: transportation; general government; education (other than universities and community colleges); health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; and agriculture.

Capital Projects Funds

Transactions related to resources obtained and used for the acquisition, construction, or improvement of major governmental general fixed assets are accounted for in the capital projects funds. Such resources are derived principally from operating transfers from the General Fund and from bond funds. Highway infrastructure construction projects are accounted for in the State Highway Fund and the Highway Trust Fund. These projects are not included in the capital projects funds.

Proprietary Funds

Proprietary funds are used to account for the State's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and changes in cash flows. The generally accepted accounting principles used are those applicable to similar businesses in the private sector; thus, these funds are reported on the accrual basis of accounting. The following are the State's proprietary funds.

Enterprise Funds

Enterprise funds account for operations of the State that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, federal grants, and other State funds.

Internal Service Funds

Internal service funds account for the operations of State agencies that provide services to other State agencies, departments, or other governmental units on a cost reimbursement basis.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The following are the primary government's fiduciary funds.

Trust Funds

- **Expendable Trust** — Expendable trust funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.
- **Nonexpendable Trust** — Nonexpendable trust funds account for assets held by the State in a trustee capacity where only income derived from the principal may be expended in the course of the funds' designated operations. The principal must be preserved intact.
- **Pension Trust** — Pension trust funds account for transactions, assets, liabilities, and net assets available for plan benefits of the various State and local governmental public employee retirement systems which the State administers.
- **Investment Trust** — The investment trust fund accounts for the external portion of the Investment Pool sponsored by the State Treasurer.

Agency Funds

Agency funds account for the various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

Account Groups

Account groups are used to establish accounting control and accountability for the State's general fixed assets and general long-term obligations and do not involve measurement of operations.

General Fixed Assets Account Group

This account group is established to account for fixed assets acquired for general government purposes, except those accounted for in proprietary funds or college and university funds. General fixed assets do not represent financial resources available for appropriation and expenditure.

General Long-Term Obligations Account Group

This account group is established to account for the unmatured principal of the State's general long-term debt and other long-term obligations of governmental funds. The unmatured principal of general long-term debt and other long-term obligations does not require current appropriation and expenditure of governmental fund financial resources.

2. Component Units*Governmental Funds*

Governmental funds are used to account for the ongoing activities of the Golden Leaf Foundation, Inc. which are similar to those within the primary government described above.

NOTES TO THE FINANCIAL STATEMENTS

Proprietary Funds

Proprietary funds are used to account for the various component units' ongoing activities which are similar to those often found in the private sector, as well as those within the primary government described above.

College and University Funds

College and university funds account for the operations of the UNC system and community colleges in accordance with existing authoritative accounting and reporting principles applicable to colleges and universities. Presentation of the underlying fund groups of the individual universities and community colleges is available from each respective institution's separately issued financial statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current 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.

All proprietary, nonexpendable trust, pension trust, and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statements of proprietary and similar trust funds report events and transactions that improve the economic position as revenues and those that diminish the economic condition as expenses.

1. Governmental, Expendable Trust, and Agency Funds

The accounts of the general, special revenue, capital projects, expendable trust, and agency funds are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The State considers amounts to be available if due within 31 days of the close of the fiscal year. Expenditures and other uses of financial resources are recognized when the related liability is incurred, except for items that are not planned to be liquidated with expendable available resources, such as the long-term portion of the liability for compensated absences and capital lease obligations.

Other modifications to the accrual basis of accounting include the following:

- inventories generally are considered expenditures at acquisition;
- prepayments usually are not capitalized; and
- principal and interest on long-term debt are recorded when due.

2. Proprietary, Nonexpendable Trust, Pension Trust, and Investment Trust Funds

The accounts of the enterprise, internal service, nonexpendable trust, pension trust, investment trust funds, and proprietary component units are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

3. College and University Funds

The accounts of the college and university funds are reported using the accrual basis of accounting with the following exceptions:

- Depreciation expense related to plant fund assets is not recorded; and
- Revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the program is predominantly conducted.

E. Cash and Cash Equivalents

This classification appears on the accompanying combined balance sheet, combining statement of pension plan net assets, investment trust fund statement of net assets, and combined statement of cash flows. It includes deposits held by the State Treasurer in the short-term investment portfolio more fully discussed in Note 4, investment of bond proceeds, demand deposits with private financial institutions, and cash on hand. 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. Bond proceeds are invested in highly liquid securities with an original maturity of 3 months or less.

F. Investments/Securities Lending

Investments

This classification includes deposits held by the State Treasurer in certain long-term investment portfolios more fully discussed in Note 4 as well as investments held separately by the State and its component units. Investments are generally valued at fair value. Additional investment valuation information is provided in Note 4.

The classification does not include any of the reporting entity's accounts that would be defined as cash equivalents based on GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

NOTES TO THE FINANCIAL STATEMENTS

Securities Lending

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, assets and liabilities resulting from securities lending transactions are reported on the combined balance sheet.

G. Deposit with Federal Government

This classification consists of unemployment compensation trust funds (expendable trust fund) held on deposit in the Federal Reserve Bank of the United States Treasury.

H. Receivables and Due from Other Funds

Receivables in governmental and fiduciary funds consist primarily of tax, interest, and federal revenues. Receivables in proprietary and college and university funds occur in the normal course of business. The "Due from other funds" classification represents interfund receivables consisting of transactions between fund types within the State (primary government). Operating transfers, quasi-external transactions, and reimbursements are classified in this account. All receivables are shown net of allowances for doubtful accounts.

I. Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

J. Inventories

The inventories of the State and proprietary component units are valued on the first-in, first-out, last invoice cost, or average cost basis. 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 basis. Inventories of all proprietary funds are valued by the first-in, first-out method or average cost basis.

Except for the State Highway Fund's maintenance and construction inventories, the cost of inventory items in the State's governmental funds is recorded as an expenditure when purchased. Reported inventories are equally offset by a fund balance reserve that indicates they do not constitute "available spendable resources" even though they are a part of net current assets. All other inventories of the State and its component units are recognized as expenses or expenditures when consumed.

K. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental

funds, and the related assets are reported in the general fixed assets account group. For financial reporting purposes, depreciation is not recorded on general fixed assets. Fixed assets of all proprietary funds are capitalized in the fund in which they are utilized and are depreciated either on the straight-line basis or on the units of output basis over their useful lives. Fixed assets of the UNC system and community colleges are capitalized in college and university funds. Depreciation is not reported on these assets.

Fixed assets are stated at historical cost, or in some instances, estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. The State (except for the USS N.C. Battleship Commission), some proprietary component units, and the college and university component units capitalize all fixed assets that have a value or cost greater than or equal to \$5,000 at the date of acquisition and have an expected useful life of two or more years. Certain proprietary component units (N.C. Housing Finance Agency, N.C. State Ports Authority, N.C. Railroad Company, N.C. Biotechnology Center, N.C. Partnership for Children, Northeastern N.C. Regional Economic Development Commission, Southeastern N.C. Regional Economic Development Commission, Western N.C. Regional Economic Development Commission) and the USS N.C. Battleship Commission (an enterprise fund) maintain a minimum threshold of \$500. Occupational licensing boards use various thresholds to capitalize fixed assets.

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.

Public domain ("infrastructure") general fixed assets consisting of highways, bridges, highway lands, and rights-of-way are not capitalized.

The depreciation methods and estimated lives used by proprietary funds are:

	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings	Straight-line	7-50 years
Other structures and improvements	Straight-line	10-50 years
Machinery and	Straight-line	3-15 years
equipment	Units of output for motor vehicles	90,000 miles/ vehicle

NOTES TO THE FINANCIAL STATEMENTS**L. 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".

M. Tax Judgements Payable

Tax judgement liabilities are the result of court rulings against the State.

N. Lease Obligations

Assets acquired under capital leases are generally valued at the present value of the lease payments. Capital leases of governmental funds are reported in the general long-term obligations account group and the related assets are reported in the general fixed assets account group. Capital leases for proprietary funds and college and university funds are reported in those funds, along with the related assets.

GASB Codification Section L20 and the Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, issued by the Financial Accounting Standards Board (FASB), establish requirements for lease obligations. Leases meeting the standards of FASB 13 have been capitalized and are reported as capital leases payable. Other leases are accounted for as operating leases and are not recorded on the balance sheet. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. Refer to Note 6 for specific disclosures on lease obligations.

All leases of the State contain appropriation clauses indicating that continuation of the lease is subject to continued funding by the Legislature. For reporting purposes, leases are fully disclosed since cancellation due to lack of appropriation is deemed unlikely.

O. Compensated Absences

The State and its component units have adopted the accounting and reporting principles outlined in GASB Codification Section C60 regarding employee vacation leave. Since unpaid vacation leave will not be liquidated with expendable available financial resources, the State's liability for long-term accumulated unpaid vacation leave is reported in the accompanying general long-term obligations account group for all governmental funds. There is no liability in the accompanying financial statements for unpaid accumulated sick leave because the State has no obligation to pay sick leave upon employee termination or retirement.

In the proprietary funds and college and university funds, the liability for accumulated unpaid vacation leave is reported as a current liability. For the same reasons as cited for

governmental funds, no liability for unpaid accumulated sick leave is recorded.

In governmental funds, the expenditure for compensated absences (vacation and sick leave) is recorded when the leave is taken. In proprietary funds the expense for vacation leave is recorded when the leave is earned. In college and university funds a year-end adjustment is recorded to reflect the current year's vacation leave expense. The expense for sick leave is recorded when the leave is taken in both proprietary and college and university funds.

The State's policy on compensated absences is generally adhered to by its agencies, departments, and most of its component units. Full-time permanent, probationary and trainee employees earn vacation leave ranging from 0.98 to 2.15 days per month, depending upon years of service. Part-time employees earn the same range of leave on a pro-rata amount based on the number of hours a week they work. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is 30 days. Any vacation accumulated beyond 30 days is converted to sick leave at year end. At termination, employees are paid for any accumulated vacation leave. Full-time permanent, probationary and trainee employees earn sick leave at the rate of one day per month with an unlimited accumulation. Part-time employees earn a percentage of the total of 8 hours per month based on the number of hours a week they work. Employees are not paid for accumulated sick leave upon termination; however, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

P. Long-Term Liabilities

Long-term liabilities expected to be financed from governmental funds are accounted for in the general long-term obligations account group. Expenditures for principal and interest payments are recognized in the respective fund type when due. Long-term liabilities expected to be financed from the proprietary funds and the college and university funds, as well as the related interest payments, are accounted for in those funds.

Capital appreciation bonds are those bonds that are issued at stated interest rates (which may be zero) significantly below their effective interest rate, resulting in a substantial discount (deep discount). The implicit interest (*i.e.*, discount) is not paid until the bonds mature. Therefore, the net value of the bonds accrete (*i.e.*, the discount is reduced) over the life of the bonds. This deep-discount debt is reported in the general long-term obligations account group at its net or accreted value rather than at face value.

Q. Sureties

Sureties include various assets, including securities from insurance companies doing business within North Carolina, that have been placed in safekeeping with the State Treasurer, as required by applicable general statutes.

NOTES TO THE FINANCIAL STATEMENTS**R. Fund Equity**

Contributed capital is recorded in all proprietary funds that have received capital grants or contributions from other sources. Fund balance reserved (in governmental and trust funds) and fund balance restricted (in college and university funds) represent that portion of fund balances (1) not available for appropriation or expenditure and/or (2) that is legally segregated by third parties for a specific future use. Designations of unreserved fund balance represent tentative management plans that are subject to change. Refer to Note 15 for disclosure on reserves and designations.

S. Revenues**Taxes**

Taxes, net of estimated refunds, are recognized as revenue when they become both measurable and available to finance expenditures of the fiscal period.

Federal Grant Revenues

Federal grants are recorded as receivables and as revenues when the related expenditures are incurred. Grants received before the revenue recognition criteria have been met are reported as deferred revenue.

T. Food Stamps

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the State recognizes distributions of food stamp benefits as revenue and expenditures in the general fund, whether the benefits are distributed directly or through agents and whether the benefits are in paper or electronic form. Expenditures are recognized when the benefits are distributed to the individual recipients by the State or its agents; revenue is recognized at the same time. Revenue, expenditures, and balances of food stamps are measured based on face value.

U. Interfund Transactions

During the course of normal operations there are numerous transactions between and within fund types of the State and its component units, including expenditures and transfers of

resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers, except for retirement contributions made by the State and its component units, which are accounted for as revenues in the pension trust funds and expenditures/expenses in the contributing funds. In addition, proprietary funds (primarily internal service funds) record charges for services to all other funds as operating revenue. All funds record their payments to proprietary funds as expenditures/operating expenses. The balances at year-end resulting from these transactions are interfund receivables or payables and are classified as "Due to," "Due from," "Advance to," or "Advance from" on the Combined Balance Sheet. The composition of the State and its component units' interfund receivables and payables is presented in Note 8.

V. Totals - Memorandum Only

The "Totals - Memorandum Only" columns on the general purpose financial statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is the data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: BUDGETARY ACCOUNTING AND REPORTING

A. 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 State Highway Fund, the Highway Trust Fund, certain special revenue funds, and capital projects funds. Annual budgets are adopted for the "Employment and Training Administration", "Employment Security Commission", "Highway Patrol", "Wildlife Resources Commission", and numerous "Other Funds" Special Revenue Funds. Budgets adopted by the General Assembly based on annual State tax and non-tax revenues for the State Highway Fund and the Highway Trust Fund are combined with federal and local participation revenues and are primarily budgeted and accounted for on a multi-year project basis. Capital projects funds are budgeted on a project basis. Since these funds have multi-year project budgets, they are not included in the budgetary comparison statement.

The accompanying budgetary comparison statement discloses the annual "appropriated budget" for the General Fund and budgeted special revenue funds. Actual amounts in the statement 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 Note 2 B.

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 sixteen universities within the University of North Carolina system 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 sixteen universities have applied for and received special responsibility status.

For the fiscal year 1999-2000, supplemental appropriations of \$836,658,000 were approved by the Extra Session of the General Assembly for Hurricane Floyd Relief.

The supplemental appropriations were funded by the unreserved credit balance (\$40 million) and by the Savings Reserve Account (\$285,965,824). The remainder came from the agencies' operating budget, Capital Improvement projects, Repairs and Renovations reserve, Contingency and Emergency reserve, and Legislative Increase reserve.

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.

For the year ended June 30, 2000, there were 418 annually budgeted (*budgetary basis*) special revenue funds located in 46 departmental budget codes. A list of these funds and detailed 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. Reconciliation of Budget/GAAP Reporting Differences

The *General Fund and Special Revenue Funds, Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances - Budget and Actual (Budgetary Basis - Non-GAAP)* - Exhibit A-3, 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. The State Highway Fund and the Highway Trust Fund, as discussed in section A, have multi-year budgets and therefore are not included in the budgetary statements. They are presented in the special revenue funds for GAAP purposes. Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in either the General Fund or the special revenue funds for GAAP purposes.

Basis differences. Budgetary funds are accounted for on the cash basis of accounting, while under GAAP the govern-

NOTES TO THE FINANCIAL STATEMENTS

mental 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, 2000 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<i>General Fund</i>	<i>Special Revenue Funds</i>
Unreserved fund balance (Exh. A-3, budgetary basis), June 30, 2000.....	\$ —	\$ 105,015
Reserved fund balance (budgetary basis),		
Savings.....	37,522	—
Repairs and renovation.....	7,052	—
Retirees' health premium.....	117,746	—
Intangibles.....	240,000	—
N.C. Railroad acquisition.....	42,000	—
N.C. Railroad dividends.....	918	—
Disproportionate share.....	1,170	—
Clean Water Management Trust Fund.....	1,054	—
Fund balance (budgetary basis).....	\$ 447,462	\$ 105,015
Reconciling Adjustments:		
Entity Differences:		
Primary government:		
State Highway Fund.....	—	358,386
Highway Trust Fund.....	—	747,497
Other.....	161,126	1,352,965
Component unit.....	—	(8,275)
Basis Differences:		
Accrued revenues.....	82,246	11,558
Accrued expenditures		
Tax judgements.....	(240,000)	—
Other accrued expenditures.....	(1,070,353)	(10,788)
Other Adjustments:		
Notes receivable.....	3,011	13,873
Inventories.....	49,488	6,043
Investments.....	47	—
Prepaid items.....	—	74
Timing Differences:		
Authorized carryforward for specific encumbrances.....	66,531	—
Authorized carryforward for designated programs.....	766,117	—
Fund balance (Exh. A-2, GAAP basis) June 30, 2000.....	<u>\$265,675</u>	<u>\$2,576,348</u>

C. 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 (G.S. 143-15.2 through 143-15.3B). One-fourth of any unreserved credit balance (budgetary basis) remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve account until the account contains funds equal to 5% of the amount appropriated the preceding year for the General Fund operating budget. The 1999 Session of the General Assembly under Session Law 1999-237 Section 6(d), suspended the transfer of funds from the unreserved credit balance to the Savings Reserve Account (G.S. 143-15.2 and G.S. 143-15.3) for the 1998-99 fiscal year only.

Retirees' Health Premiums Reserve. This reserve account was established to receive and temporarily retain employer contributions for retirees' health insurance premiums made by all State agencies and universities and by local governments that have employees who are members of the State Health Plan. Since a significant portion of the funding for this account is from sources outside the reporting entity and legally restricted for a specific future use, it is reported as reserved fund balance for GAAP purposes.

Repairs and Renovations Reserve Account (G.S. 143-15.2 through 143-15.3B). This reserve account provides for a portion of the State's continuing capital needs. The reserve balance is based on 3% of the estimated replacement value of all State buildings supported from the General Fund. The funds in this account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund.

Intangibles Tax Refunds. On February 21, 1996, the U.S. Supreme Court declared North Carolina's intangibles tax unconstitutional. *Smith, et al. v. State* aimed at recovering intangibles tax refunds for taxpayers who failed to comply with the refund statute's 30-day demand requirement. On December 4, 1998, the Supreme Court ruled that North Carolina would have to pay refunds to non-protesters who paid intangibles taxes. This case was consolidated with *Shaver, et al. v. State*, another action for refund of intangibles tax paid on shares of stock. The consolidated case was settled and the agreement required the State to pay \$440 million into a settlement fund in two installments, \$200 million by October 1, 1999, and \$240 million by July 10, 2000. The 2000 General Assembly directed \$240 million to be transferred from the State Aid to Local School Administrative Units to a reserve in the Department of the State Treasurer. These funds will be held in reserve for allocation pursuant to this settlement.

NOTES TO THE FINANCIAL STATEMENTS

Clean Water Management Trust Fund (G.S. 143-15.2 through 143-15.3B). This reserve account provides for the Clean Water Management Trust Fund to finance projects to clean up or prevent surface water pollution as approved by the Clean Water Management Commission. The amount reserved in the General Fund each year is defined as 6.5% of any unreserved credit balance remaining in the General Fund at the end of the fiscal year, or \$30.0 million dollars, whichever is greater.

North Carolina Railroad Acquisition Reserve and North Carolina Railroad Dividends Reserve (1997 General Assembly, Senate Bill 352, Section 32.30). For fiscal year 1996-97, the General Assembly established the Railroad Reserve Account. In order to help promote trade, industry, and transportation within the State of North Carolina and to advance the economic interests of the State and its citizens, the General Assembly found it advantageous for the State to acquire the outstanding shares of the North Carolina Railroad Company not held by the State. On April 1, 1998 the General Fund loaned the North Carolina Railroad Company \$61 million for the retirement of non-State owned common stock shares of the Railroad. The 1999 General Assembly's House Bill 168, (signed June 30, 1999) required \$19 million of Railroad dividends paid to the State during fiscal year 1999-2000, be used for specific purposes related to the Railroad and that they directly reduce the Railroad's obligation to the State. The 1999 General Assembly's House Bill 1840, (signed June 30, 2000) amended G.S. 124-5.1, *State use of North Carolina Railroad dividends*, and stated that any dividends paid to the State shall be used for the improvement of the property of the Railroad and therefore reduce the Railroad's loan obligation to the State. On January 28, 2000, the State received \$19.9 million in dividends from the North Carolina Railroad Company. \$19 million was applied to reduce the outstanding obligation to

\$42 million, and the remaining \$0.9 million was deposited in a reserve to remain unencumbered and unexpended until appropriated by the General Assembly.

Disproportionate Share Reserve Account (1997 General Assembly, Senate Bill 352, Section 11). 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 departmental receipts or non-tax revenues.

Work First (G.S. 143-15.3C). For the fiscal year 1997-98, the General Assembly established the Work First Reserve Fund. At the end of each fiscal year, the State Controller shall reserve State funds in an amount equalling one-fourth of any Work First Program funds from General Fund appropriations remaining unexpended at the end of the fiscal year, up to a maximum balance in the account of \$50 million. The General Assembly may appropriate additional funds into this reserve.

Reserve for Aquarium Construction (S.L. 1998-212 Section 29.17). For the fiscal year 1998-99, the General Assembly authorized the Office of State Budget and Management to identify unexpended General Fund appropriations from lapsed salaries to support the capital improvement project for Aquarium Construction.

Reserve for Capital Improvements (S.L. 1998-212 1999-456 Section 54). The 1999 Session of the General Assembly authorized the Director of the Office of State Budget to identify funds from any source to match federal funds for the detoxification of the Warren County polychlorinated biphenyl (PCB) landfill.

The following schedule summarizes current year changes in the budgetary reserve accounts. Amounts are expressed in thousands.

	Balance June 30, 1999	Increases			(Decreases)				Balance June 30, 2000
		Transfers from General Fund Unreserved Fund Balance	Appropriated Expenditure to General Fund Reserved Fund Balance	Unbudgeted Revenues	Transfers to General Fund Unreserved Fund Balance	Transfer to General Fund Budget Code as a Departmental Receipt	Transfers to Non- General Fund Budgetary Funds	Unbudgeted Expenditures	
Savings.....	\$ 522,521	\$ 967	\$ —	\$ —	\$ (485,966)	\$ —	\$ —	\$ —	\$ 37,522
Retirees' health premium.....	288,024	—	—	—	—	—	—	(170,278)	117,746
Repairs and renovations.....	164,683	2,902	—	—	(150,000)	—	(10,533)	—	7,052
Intangibles tax refunds.....	—	—	240,000	—	—	—	—	—	240,000
NC Railroad acquisition.....	61,000	—	—	—	—	—	(19,000)	—	42,000
NC Railroad dividends.....	—	—	—	918	—	—	—	—	918
Clean water management.....	31,054	—	—	—	(30,000)	—	—	—	1,054
Disproportionate share.....	19,552	—	—	—	—	—	—	(18,382)	1,170
Aquariums.....	30,000	—	—	—	—	—	(30,000)	—	—
Work First.....	17,362	—	—	—	—	(17,362)	—	—	—
Capital Improvements.....	7,000	—	—	—	—	—	(7,000)	—	—
Total.....	\$ 1,141,196	\$ 3,869	\$ 240,000	\$ 918	\$ (665,966)	\$ (17,362)	\$ (66,533)	\$ (188,660)	\$ 447,462

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Retained Earnings / Fund Balance Deficit

Primary Government

At June 30, 2000, the following enterprise funds reported retained earnings deficits: Agricultural Farmers Market, \$4.197 million; Indian Cultural Tourist Center, \$104 thousand; and Workers' Compensation, \$8.523 million.

At June 30, 2000, the following internal service funds reported retained earnings deficits: Courier Service, \$47 thousand; N.C. Information Highway, \$1.569 million; Applications Development Services, \$4.40 million; Cherry Hospital Auxiliary Services, \$1.810 million; and John Umstead Hospital Auxiliary Services, \$3.272 million.

Component Units

At June 30, 2000, the following component unit proprietary funds reported retained earnings deficits: Disability Income Plan of N.C., \$14.115 million and North Carolina Railroad Company, \$50.870 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: 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 or the local clearing banks. 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; repurchase agreements; obligations of the State of North Carolina; shares, deposits, savings certificates, and certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange or time drafts; asset-backed securities; 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 Escheats Fund, the Public School Insurance Fund, the State Education Assistance Authority, 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; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; individual and group trusts; certain real estate investment funds; 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 bond proceeds, 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 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 and various special trust funds.

Equity Investment – This portfolio holds equity-based trusts. 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.

Venture Capital Investment – This portfolio holds investments in venture capital limited partnerships, the long-term investment portfolio 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.

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 SEC and is not subject to any formal oversight other than that of the legislative body.

A complete set of the audited financial statements for the Investment Pool of the North Carolina Department of the State Treasurer can be obtained from the Office of the State Auditor, 2 Salisbury Street, Raleigh, NC 27699-0601.

At year end, the condensed financial statements for the Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

NOTES TO THE FINANCIAL STATEMENTS**Statement of Net Assets
June 30, 2000**

Assets:	
Cash in bank.....	\$ 94,265
Accrued investment income.....	532,140
Investments.....	<u>77,281,952</u>
Total assets.....	<u>77,908,357</u>
Liabilities:	
Distributions payable.....	42,597
Obligations under securities lending.....	<u>9,296,075</u>
Total liabilities.....	<u>9,338,672</u>
Net Assets:	
Internal:	
Primary government.....	65,448,821
Component units.....	1,935,157
External.....	<u>1,185,707</u>
Total net assets.....	<u>\$ 68,569,685</u>

**Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2000**

Increase in net assets from operations:	
Revenues:	
Investment income.....	<u>\$ 6,026,920</u>
Expenses:	
Securities lending expenses.....	486,670
Investment management.....	<u>50,991</u>
Total expenses.....	<u>537,661</u>
Net increase in net assets resulting from operations.....	5,489,259
Distributions to participants:	
Distributions paid and payable.....	(3,617,692)
Share transactions:	
Reinvestment of distributions.....	3,620,051
Net share purchases.....	<u>(1,103,679)</u>
Total increase in net assets.....	4,387,939
Net assets:	
Beginning of year.....	<u>64,181,746</u>
End of year.....	<u>\$ 68,569,685</u>

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, and Venture Capital Investment portfolios is reported as investments. The internal equity of the investment 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 or component unit's share of the assets and liabilities arising from securities lending transactions are reported in the funds and 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 monthly for the Long-term Investment and Equity

Investment portfolios and quarterly for the Real Estate Investment and Venture Capital 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 funds, venture capital limited partnerships, and equity investment funds are valued using market prices provided by the investment managers. 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, 2000, \$79,471,720 of investment income associated with other funds was distributed to the general fund.

Bond Proceeds Investment Accounts

The State Treasurer has established separate investment accounts for each State bond issue to comply with IRS 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 financial statements, each fund's equity in these accounts is reported as cash and cash equivalents.

Demand and Time Deposits

Agency deposits to the investment pool may be made in any bank, savings and loan association or trust company in the State approved by the State Treasurer. Depositories are required, in accordance with the rules in the North Carolina Administrative Code (Chapter 20 NCAC 7), to collateralize all balances of the State Treasurer which are not insured. Basically, these rules require that the bank maintain, as collateral in an escrow account established by the State Treasurer with a third-party bank, securities of a type enumerated in the rules, in an amount whose market value is not less than the amount of the time deposits and the average balance of demand deposits for the preceding quarter less the allowable deposit insurance on the deposits. Generally, rules require the securities to be governmental in origin (e.g., U.S. Treasury and U.S. agency obligations, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. Financial institutions generally may elect to collateralize deposits separately (dedicated method) or to include the deposits of North Carolina local government units in the same collateral pool with the State and certain component units (pooling method). Financial institutions report quarterly on bank balances and amounts deposited in escrow as collateralization of deposits. The State Treasurer maintains no records of financial institution balances of local governments collateralized in the pool with State Treasurer deposits. Since the amounts of local government deposits in the pooling method

NOTES TO THE FINANCIAL STATEMENTS

banks are not known, the risk of being under-collateralized at any given time is increased. Therefore, the institution's financial condition may cause the State Treasurer to require a particular institution to utilize the dedicated method exclusively for the protection of each public depositor.

At June 30, 2000, the deposits maintained by the State Treasurer consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 94,265	\$ 89,184
Time.....	420,246	420,246
Total Deposits.....	<u>\$ 514,511</u>	<u>\$ 509,430</u>

At year end, 99 percent of the balances in financial institutions were deposited under the pooling method. Because the financial institutions complied with the collateralization policies and procedures by utilizing either the dedicated method or the pooling method described above, the State Treasurer considers all of its deposits to be either insured or covered by collateral held by the escrow agent.

Investments

Investments held by the Investment Pool and the bond proceeds investment accounts are categorized into three categories of credit risk to give an indication of the level of credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the owner or its agent in the owner's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the owner's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a financial institution's trust department or agent, but not in the owner's name. At year end, the balances of the Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

	<u>Category</u>		<u>Carrying Amount</u>
	<u>1</u>	<u>3</u>	
Investment Pool			
Investments Categorized:			
U.S. government and agency securities:			
Not on loan.....	\$ 11,900,476	\$ —	\$ 11,900,476
On loan for securities collateral.....	1,771,342	—	1,771,342
Corporate bonds and notes:			
Not on loan.....	9,107,717	4,198,392	13,306,109
On loan for securities collateral.....	6,522	—	6,522
Repurchase agreements.....	35,000	4,948,542	4,983,542
Commercial paper.....	—	149,141	149,141
International bonds.....	462,304	—	462,304
Domestic equities.....	78,126	—	78,126
Total Investments Categorized.....	<u>\$ 23,361,487</u>	<u>\$ 9,296,075</u>	<u>32,657,562</u>
Investments Not Categorized:			
Certificates of deposit.....			420,246
Equity-based trusts.....			34,152,601
Venture capital investments.....			52,678
Real estate trust funds.....			838,964
Investments held by broker/dealers under securities loans with cash collateral:			
U.S. government and agency securities.....			8,947,296
Corporate bonds and notes..			212,605
Total Investment Pool.....			<u>\$ 77,281,952</u>

The above certificates of deposit are a component of the deposit totals reported in the State Treasurer's demand and time deposit section of this note. At year end, the major investment classifications of the Investment Pool had the following attributes (dollars in thousands):

<u>Investment Classification</u>	<u>Carrying Amount</u>	<u>Principal Amount</u>	<u>Range of Interest Rates</u>	<u>Range of Maturities</u>
U.S. government and agency securities:				
U.S. Treasury notes and bonds.....	\$ 14,940,829	\$ 14,136,742	4.25 to 9.125%	215 days to 28 years
GNMA securities.....	4,734,545	4,896,847	6.0 to 9.0%	17 to 30 years
U.S. agency notes and bonds.....	2,943,740	3,053,536	zero to 7.625%	3 days to 30 years
Corporate bonds and notes.....	13,525,236	14,234,105	4.875% to 14.5%	52 days to 35 years
Repurchase agreements.....	4,983,542	4,911,470	6.2 to 7.225%	3 to 54 days
Equity-based trusts.....	34,152,601	Not applicable	Not applicable	Not applicable

NOTES TO THE FINANCIAL STATEMENTS

The equity-based trusts are investments in trust funds managed by third party money managers. The trust funds invest in common stocks and other equity-type securities. For these investments, the State Treasurer does not own individual securities but rather has a percentage ownership in the trust.

Included in the "U.S. government and agency securities" investment category are mortgage-backed securities issued by an agency of the United States government, the Government National Mortgage Association (GNMA). The State Treasurer invests in these securities to maximize yield while maintaining a high degree of safety. The securities are based on cash flows from payments on underlying mortgages. Although these investments are not derivatives, the investment values are sensitive to mortgage prepayments that tend to occur during periods of declining interest rates.

Derivatives are not widely used by the State Treasurer's Investment Pool. However, certain portfolios within the Investment Pool utilize third-party professional managers that may invest in collateralized mortgage obligations, financial futures, forwards, options, swaps and mutual funds that may also invest in such derivatives. The State Treasurer does not have any direct involvement over these transactions nor are they material.

At year end, the balances of the bond proceeds investments were as follows (dollars in thousands):

<i>Bond Proceeds</i>	<u>Category</u>	<u>Carrying</u>
<i>Investments Categorized:</i>	1	Amount
U.S. government and agency securities....	\$ 99,517	\$ 99,517
Repurchase agreements.....	320,674	320,674
Total Investments.....	<u>\$ 420,191</u>	<u>\$ 420,191</u>

Securities Lending

Based on the authority provided in G.S. 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. During the year the custodian lent U.S. government securities, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent 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. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. 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 average maturities of the cash collateral investments are less than the average maturities of the securities lent. While cash can be invested in securities ranging from overnight to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 2000, the weighted average maturity of unmatched investments was approximately two weeks.

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.

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 by 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.

At June 30, 2000, the deposits maintained outside the State Treasurer by the primary government consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 13,199	\$ 17,823
Time.....	803,684	816,536
Total Deposits.....	<u>\$ 816,883</u>	<u>\$ 834,359</u>

Of these bank balances, \$385.894 million was covered by federal depository insurance, \$412.119 million by collateral held by the escrow agent in the depositor's name, and \$36.346 million was uninsured and uncollateralized. In addition, the North Carolina Employment Security Commission had \$1.24 billion on deposit with the U.S. Treasurer at June 30, 2000.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2000, the deposits maintained by the component units consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 58,855	\$ 20,467
Time.....	119,523	124,406
Total Deposits.....	<u>\$ 178,378</u>	<u>\$ 144,873</u>

Of these bank balances, \$16.833 million was covered by federal depository insurance, \$16.275 million by collateral held by the escrow agent in the depositor's name, \$31.945 million was covered under the State Treasurer's collateral pool, \$7.496 million was covered by collateral held in the pledging bank's trust department in the depositor's name and \$72.324 million was uninsured and uncollateralized.

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

All organizations within the primary government are required to follow certain investment guidelines as outlined by the General Statutes. Of these organizations, the various clerks of superior court, the N.C. Deferred Compensation Plan (457), and the 401(k) Supplemental Retirement Income Plan comprise

99% of the total investments maintained by the primary government at June 30, 2000. The investments by these funds adhere to the following General Statutes guidelines.

General Statute 7A-112(a) authorizes the Clerk of the Superior Court to invest in obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; general obligations of North Carolina local governments; and shares, deposits, savings certificates, and certificates of deposits of specified institutions.

General Statute 143B-426.25(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. Any assets of such investment vehicles or trusts shall remain solely the property and rights of the State subject only to the claims of the State's general creditors.

General Statute 135-90 places no specific investment restrictions on the 401(k) Supplemental Retirement Income Plan. However, in the absence of specific legislation, the form of governance over the investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care.

At year end the investment balances maintained outside the State Treasurer for the primary government were as follows (dollars in thousands):

	<u>Category</u>			<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
<i>Investments Categorized:</i>				
U.S. Government securities.....	\$ 2,041	\$ 586	\$ 374	\$ 3,001
State and municipal securities.....	1,984	—	—	1,984
Corporate bonds.....	—	—	1,119	1,119
Corporate common stock.....	47	—	1,326	1,373
<i>Total Investments Categorized.....</i>	<u>\$ 4,072</u>	<u>\$ 586</u>	<u>\$ 2,819</u>	<u>7,477</u>
<i>Investments Not Categorized:</i>				
Certificates of deposits.....				64,511
Bank investment contracts.....				327,038
Money market funds.....				144
Mutual funds.....				1,998,057
Annuity contracts.....				230,451
Other investments.....				15,150
Total Investments.....				<u>\$ 2,642,828</u>

NOTES TO THE FINANCIAL STATEMENTS

The above certificates of deposit and bank investment contracts are a component of the deposit totals reported in the Deposits Outside the State Treasurer section of this note.

Component Units

The component units of the State (except for the North Carolina Railroad) are required to follow certain investment guidelines as outlined by the General Statutes. The component units include the University of North Carolina system; the community colleges; the Golden L.E.A.F., a governmental component unit; and proprietary component units, such as the North Carolina Biotechnology Center, the North Carolina State Ports Authority, MCNC, and the North Carolina Housing Finance Agency. The investments by these units comprise 97% of the total investments maintained by the component units at June 30, 2000. The investments by the component units adhere to the following General Statutes guidelines.

General Statute 115D-58.6 authorizes the community colleges to invest in obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; prime quality commercial paper; the North Carolina Capital Management Trust, an SEC registered mutual fund; commingled investment pool established and administered by the State Treasurer; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

General Statute 122A-11 authorizes the North Carolina Housing Finance Agency to invest in shares of or deposits in banks or trust companies outside as well as in this State, provided any such moneys on deposit outside this State are collateralized to the same extent and manner as if deposited in this State; evidences of ownership of, or fractional undivided interests in, future interest and principal payments on direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian; obligations which are collateralized by mortgage pass-through securities guaranteed by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association; trust certificate or similar instrument evidencing an equity investment in a trust or similar arrangement, which is formed for the purpose of issuing obligations which are collateralized by mortgage pass-through or participation certificates guaranteed by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association; and repurchase agreements.

The General Statutes place no specific investment restrictions on the University of North Carolina system, the

Golden L.E.A.F., the North Carolina Biotechnology Center, the North Carolina State Ports Authority, or MCNC. 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 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. Separate financial statements for the Investment Fund may be obtained from the University.

NOTES TO THE FINANCIAL STATEMENTS

At year end, investment balances maintained outside the State Treasurer for the component units were as follows (dollars in thousands):

	<i>Category</i>			<i>Carrying Amount</i>
	1	2	3	
<i>Investments Categorized:</i>				
U.S. Government securities.....	\$ 296,750	\$ 27,350	\$ 34,883	\$ 358,983
Collateralized mortgage obligations.....	58,207	2,577	—	60,784
State and municipal securities.....	6,036	306	—	6,342
Corporate bonds.....	82,752	7,640	19,612	110,004
Corporate common stock.....	354,461	108,330	37,998	500,789
Repurchase agreements.....	264,444	1,341	22,852	288,637
Commercial paper.....	98,823	—	3,986	102,809
International corporate bonds.....	3,007	—	—	3,007
International equity securities.....	5,107	3,020	—	8,127
<i>Total Investments Categorized.....</i>	<u>\$ 1,169,587</u>	<u>\$ 150,564</u>	<u>\$ 119,331</u>	<u>1,439,482</u>
<i>Investments Not Categorized:</i>				
Certificates of deposits.....				15,061
Investment agreements.....				8,126
Money market funds.....				208,237
Mutual funds.....				659,274
Annuity contracts.....				281
Real estate.....				33,845
Real estate investment trust.....				38,013
Limited partnerships.....				267,745
Investments held by broker-dealers under reverse repurchase agreements:				
U.S. Government securities.....				56,627
N.C. Capital Management Trust				884
Other investments.....				17,971
<i>Total Investments.....</i>				<u>\$ 2,745,546</u>

The above certificates of deposit, investment agreements and bank investment contracts are a component of the deposit totals reported in the Deposits Outside the State Treasurer (component units) section of this note.

Included in the "U.S. government securities" investment category are mortgage-backed securities issued by agencies of the United States government, the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). The University of North Carolina at Chapel Hill and the North Carolina Housing Finance Agency invest in these securities to maximize yield while maintaining a high degree of safety. The securities are based on cash flows from payments on underlying mortgages. Although these investments are not derivatives, the investment values are sensitive to mortgage prepayments that tend to occur during periods of declining interest rates.

Derivatives are not widely used by the various component units investing outside the State Treasurer. Of the above balances, only the Collateralized Mortgage Obligations (CMOs) and certain investments held by limited partnerships were considered material derivative positions during the year.

NOTES TO THE FINANCIAL STATEMENTS

Collateralized Mortgage Obligations - The University of North Carolina at Chapel Hill and UNC Hospitals invest in collateralized mortgage obligations (CMOs) issued by FNMA, FHLMC and by certain trusts and private corporations. In a CMO, cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple classes with different priority claims and payment streams (commonly referred to as tranches.) A holder of the security thus chooses the class of security that best meets risk and return objectives. CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates, and various liquidity factors related to their specific markets. The University and UNC Hospitals invest in these securities to increase the yield and return on their investment portfolios given the available alternative investment opportunities.

Limited Partnerships - The limited partnership positions are 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.

Reverse Repurchase Agreements - The University of North Carolina at Chapel Hill enters into fixed coupon reverse repurchase agreements, that is, the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$3.7 million. All sales under reverse repurchase agreements are for fixed terms. The University's policy for investing the proceeds of reverse repurchase agreements is that the term to maturity of the investment be the same as the term of the reverse repurchase agreement. Such matching existed at year-end.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: FIXED ASSETS

Primary Government:

A summary of changes in general fixed assets for the year ended June 30, 2000 is presented below (dollars in thousands).

	Balance July 1, 1999	Prior Year Adjustments	Transfers		Additions	Deletions	Balance June 30, 2000
			Between Assets	Between Funds			
Land.....	\$ 301,076	\$ 3,327	\$ (171)	\$ —	\$ 19,734	\$ 2,233	\$ 321,733
Buildings.....	1,529,404	28,365	112,459	63,357	26,695	1,926	1,758,354
Other structures and improvements.....	147,248	453	2,279	220	722	228	150,694
Machinery and equipment.....	1,041,420	2,559	74	(295)	149,934	45,675	1,148,017
Art, literature and artifacts.....	43,411	485	6	—	3,751	286	47,367
Construction in progress.....	320,504	(27,172)	(114,647)	(64,761)	111,136	745	224,315
Total — General Fixed Assets...	<u>\$ 3,383,063</u>	<u>\$ 8,017</u>	<u>\$ —</u>	<u>\$ (1,479)</u>	<u>\$ 311,972</u>	<u>\$ 51,093</u>	<u>\$ 3,650,480</u>

A summary of proprietary funds' fixed assets by classification for the primary government, at June 30, 2000, is presented below (dollars in thousands).

	Enterprise	Internal Service
Land.....	\$ 2,855	\$ 4,161
Buildings.....	25,634	40,771
Other structures and improvements...	8,181	13,010
Machinery and equipment.....	2,683	268,284
Construction in progress.....	778	9,803
	40,131	336,029
Less: Accumulated depreciation.....	(18,352)	(147,171)
Total Fixed Assets.....	<u>\$ 21,779</u>	<u>\$ 188,858</u>

Component Units:

A summary of fixed assets by classification for the component units, at June 30, 2000, is presented below (dollars in thousands).

	Proprietary Funds						
	N.C. State Ports Authority	N.C. Global TransPark Authority	MCNC	North Carolina Railroad	N.C. Biotechnology Center	Other Component Units	Total
Land.....	\$ 12,811	\$ 7,223	\$ —	\$ —	\$ —	\$ 592	\$ 20,626
Buildings.....	111,085	9,671	20,229	350	7,271	362	148,968
Other structures and improvements...	39,732	17,875	—	7,849	—	176	65,632
Machinery and equipment.....	52,043	1,918	38,072	—	1,570	4,924	98,527
Construction in progress.....	4,424	6,324	1,404	—	44	—	12,196
	220,095	43,011	59,705	8,199	8,885	6,054	345,949
Less:							
Accumulated depreciation.....	(101,664)	(6,294)	(44,383)	(335)	(3,444)	(2,994)	(159,114)
Total Fixed Assets.....	<u>\$ 118,431</u>	<u>\$ 36,717</u>	<u>\$ 15,322</u>	<u>\$ 7,864</u>	<u>\$ 5,441</u>	<u>\$ 3,060</u>	<u>\$ 186,835</u>

	College and University Funds		
	University	Community Colleges	Total
Land.....	\$ 88,681	\$ 63,648	\$ 152,329
Buildings.....	3,229,302	903,526	4,132,828
Other structures and improvements...	300,877	44,259	345,136
Machinery and equipment.....	774,737	132,366	907,103
Art, literature and artifacts.....	690,358	68,932	759,290
Construction in progress.....	429,618	74,686	504,304
Total Fixed Assets.....	<u>\$ 5,513,573</u>	<u>\$ 1,287,417</u>	<u>\$ 6,800,990</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 6: LEASE OBLIGATIONS—OPERATING AND CAPITAL**

The State and its component units have entered into various operating and capital leases for office space and for office, 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 paid or incurred. For the year ended June 30, 2000, total operating lease expenditures were \$47,942,027 for Primary Government, \$20,695,796 for Universities, \$3,519,243 for Community Colleges, and \$820,513 for other component units. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2000 are (dollars in thousands):

Fiscal Year	Operating Leases		Capital Leases				
	Primary Government	Component Units	Primary Government	Component Units			
			General Long-Term Obligations	University Funds	Community College Funds	Total College and University Funds	Proprietary
2001.....	\$ 39,081	\$ 19,354	\$ 405	\$ 1,473	\$ 232	\$ 1,705	\$ 3,413
2002.....	29,262	14,851	260	1,450	83	1,533	2,631
2003.....	22,961	11,692	69	878	60	938	1,339
2004.....	17,371	8,620	69	512	39	551	51
2005.....	13,453	6,413	63	310	3	313	19
Thereafter.....	28,626	7,697	—	78	—	78	—
Total Future Minimum Lease Payments.....	\$ 150,754	\$ 68,627	866	4,701	417	5,118	7,453
Less: Amounts Representing Interest			13	490	58	548	786
Present Value of Future Minimum Lease Payments			\$ 853	\$ 4,211	\$ 359	\$ 4,570	\$ 6,667

Falls Lake Operating Lease. The State has leased from the federal government approximately 40,000 acres of land and water areas at Falls Lake, located in Wake and Durham counties. The agreement allows the State to operate the areas for recreational purposes, and in return the State agreed to pay for one half of the development costs. Payments, which have not yet begun, are to take place over 50 years with an option to prepay. Current cost estimates indicate that the State has a total obligation of \$57.8 million, including \$31.4 million in interest and \$26.4 million in principal. Annual payments are estimated to be \$1.156 million beginning in fiscal year 2000-2001. Since the costs and payment period are yet to be finalized, this commitment has not been included in the above table.

At June 30, 2000, fixed assets acquired under capital leases are as follows:

	Primary Government	Component Units			
	General Long-Term Obligations	University Funds	Community College Funds	Total College and University Funds	Proprietary
Machinery and Equipment	\$ 856	\$ 4,968	\$ 851	\$ 5,819	\$ 10,271
Other	—	611	46	657	—
Less: Accumulated Depreciation	—	(1,101)	—	(1,101)	(3,598)
Total Fixed Assets	\$ 856	\$ 4,478	\$ 897	\$ 5,375	\$ 6,673

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: LONG-TERM OBLIGATIONS

A. Changes in Long-Term Liabilities

During the year ended June 30, 2000, the following changes occurred in liabilities reported in the general long-term obligations account group (dollars in thousands):

	<i>Rates</i>	<i>Balance June 30, 1999</i>	<i>Prior Year Adjustment</i>	<i>Accretion</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2000</i>
General Obligation Bonds :							
Capital Improvement, Series 1989, 5-1-89.....	6.5-6.9	\$ 13,433	\$ —	\$ 933	\$ —	\$ 1,910	\$ 12,456
Capital Improvement, Series A, 3-1-91.....	5.75-6.0	24,800	—	—	—	8,300	16,500
Capital Improvement, Series 1991, 10-1-91.....	5.3-5.6	18,700	—	—	—	6,200	12,500
Prison and Youth Services Facilities, Series A, 3-1-92.....	5.9-6.2	26,400	—	—	—	8,800	17,600
Prison and Youth Services Facilities, Series B, 10-1-93...	2.5-4.5	72,900	—	—	—	6,800	66,100
Public Improvement Refunding, Series 1993, 10-1-93.....	2.4-5.5	21,920	—	—	—	21,920	—
Clean Water Refunding, Series 1993, 10-1-93.....	3.0-5.0	6,495	—	—	—	4,045	2,450
Prison & Youth Services Facilities Refunding, Series C, 10-15-93.....	4.2-4.8	64,095	—	—	—	615	63,480
Capital Improvement, Series 1994A, 2-1-94.....	4.6-4.75	364,500	—	—	—	8,000	356,500
Clean Water, Series 1994A, 10-1-94.....	5.7-5.8	10,000	—	—	—	2,000	8,000
Clean Water, Series 1994B, 11-1-94.....	4.7-5.0	4,000	—	—	—	4,000	—
Clean Water, Series 1995A, 6-1-95.....	5.0-5.25	54,000	—	—	—	3,000	51,000
Clean Water, Series 1995B, 7-1-95.....	4.25-4.3	5,000	—	—	—	5,000	—
Capital Improvement, Series 1997, 1-1-97.....	4.8-5.1	189,000	—	—	—	3,000	186,000
Public School Building, Series 1997A, 3-1-97.....	5.1-5.2	434,000	—	—	—	8,000	426,000
Public School Building, Series 1998A, 4-1-98.....	4.75-5.0	434,000	—	—	—	16,000	418,000
Highway, Series 1997A, 11-1-97.....	4.5-5.0	233,325	—	—	—	16,675	216,650
Public School Building, Series 1999, 4-1-99.....	4.5-5.0	450,000	—	—	—	18,500	431,500
Clean Water Refunding, Series 1999, 4-1-99.....	2.9-5.0	25,405	—	—	—	155	25,250
Public Improvement, Series 1999A, 9-1-99.....	5.0-5.4	—	—	—	177,400	—	177,400
Public Improvement, Series 1999B, 9-1-99.....	6.7-6.75	—	—	—	20,000	—	20,000
Public Improvement, Series 1999C, 10-1-99.....	4.5-4.7	—	—	—	2,600	—	2,600
Total Bonds Payable.....		<u>2,451,973</u>	<u>—</u>	<u>933</u>	<u>200,000</u>	<u>142,920</u>	<u>2,509,986</u>
Other Long-Term Obligations :							
Tax judgements payable.....		440,000	—	—	58,744	440,000	58,744
Notes payable.....	5.05-5.06	3,270	8,797	—	—	3,270	8,797
Deferred death benefit payable.....		145	—	—	—	60	85
Obligations for workers' compensation.....		6,787	—	—	1,205	869	7,123
Capital leases payable.....		904	—	—	339	390	853
Accrued vacation leave.....		192,978	—	—	6,362	1,106	198,234
Total General Long-Term Obligations.....		<u>\$ 3,096,057</u>	<u>\$ 8,797</u>	<u>\$ 933</u>	<u>\$ 266,650</u>	<u>\$ 588,615</u>	<u>\$ 2,783,822</u>

B. Tax Judgements Payable

On August 24, 2000, the North Carolina State Supreme Court issued an order in *Chrysler Credit* denying the North Carolina Department of Revenue's request for discretionary review of a decision of the North Carolina Court of Appeals. As a result, the Department was required to refund \$20.511 million of taxes previously paid by Chrysler. On November 1, 2000, the North Carolina Court of Appeals issued an order accepting the Secretary of Revenue's motion to dismiss an appeal previously filed by the Department in the *Ford Motor Credit* case. As a result, the Department was required to refund \$38.233 million of taxes previously paid by Ford. The liability of \$58.744 million is reported in the General Long Term Obligations Account Group.

NOTES TO THE FINANCIAL STATEMENTS

C. Bonds and Notes Payable

Bonds and notes payable at June 30, 2000 were (dollars in thousands):

	Interest Rates	Final Maturity	Total
Primary Government:			
General long-term obligations:			
Bonds payable.....	2.5 - 6.9	3/1/19	\$ 2,509,986
General long-term obligations:			
Notes payable.....	5.05 - 5.06	5/1/08	8,797
Component Units:			
University Funds:			
Bonds payable.....	2.88 - 9.25	2/15/29	1,027,572
Other Component Units:			
Housing Finance:			
Bonds payable.....	3.6 - 8.25	7/1/31	1,179,708
Other:			
Bonds payable.....	3.5 - 7.0	7/1/28	707,158
College and University Funds:			
Notes payable.....	0.0 - 8.5	5/1/22	43,251
Other Component Units:			
Notes payable.....	5.0 - 6.9	4/20/08	1,078

The full faith, credit, and taxing power of the State has been pledged only for the payment of the principal of and the interest on the general obligation serial bonds and capital appreciation bonds. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

D. Bonds Authorized but Unissued

In November 1996, the voters of North Carolina approved bonds in the amount of \$1.8 billion for school construction and \$950 million for highway construction. On March 1, 1997, \$450 million of Public School Building Bonds, with a settlement date of March 1, 2016, were sold. On November 1, 1997, \$250 million of Highway Bonds, with a settlement date of May 1, 2013, were sold. On April 1, 1998, \$450 million of Public School Building Bonds, with a settlement date of April 1, 2016, were sold and on April 1, 1999, \$450 million of Public School Building Bonds, with a settlement date of April 1, 2018, were sold. In November 1998, North Carolina voters approved \$800 million of new debt to finance grants and loans to local government units for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation and water reuse projects. In addition, \$200 million of new debt was approved to finance grants, loans, or other financing to public or private entities for construction of natural gas facilities. On September 1, 1999, \$197.4 million of Public Improvement Bonds, Series 1999A and 1999B, were sold. The bonds in Series 1999A have a settlement date of March 1, 2019 and the bonds in Series 1999B have a settlement date of March 1, 2007. On October 1, 1999, \$2.6 million of Public Improvement Bonds, with a settlement date of March 1, 2007, were sold. The amount of authorized but unissued bonds was \$1.95 billion as of June 30, 2000.

The limitations on the increase of State debt are contained in the State Constitution, Article 5, Section 3. This section 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:

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;
6. For any other lawful purposes, to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the next preceding biennium.

E. Capital Appreciation Bonds

General Obligation Bonds

Capital Improvement Bonds, Series 1989, 5-1-89, 5-24-89, include capital appreciation bonds recorded in the amount of \$12.456 million, which represents the accreted value of these bonds. The accumulated accretion for the capital appreciation bonds is \$11.857 million since May 24, 1989.

University Bonds

The *University of North Carolina at Chapel Hill, Series 1997 Utility System* and the *Series 1991 U. S. Environmental Protection Agency Project* bond issues include capital appreciation bonds with an ultimate maturity value of \$84.135 million and \$25.275 million, respectively. These bonds are recorded in the amounts of \$35.036 million and \$8.547 million, respectively, which is the accreted value at June 30, 2000. These bonds mature in the years from 2010 to 2021.

F. Demand Bonds

University Revenue Bonds

Athletic Facilities, Series 1998

On August 13, 1998, the University of North Carolina at Chapel Hill issued variable rate demand bonds in the amount of \$14,995,000 that have a final maturity date of November 1, 2018. The bonds are subject to mandatory sinking fund redemption that begins on November 1, 2000. The proceeds of this issuance were used for certain additions and renovations to Kenan Memorial Stadium and constructing new facilities serving the Field Hockey and Soccer teams. 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 agent, Bank of America.

Under an irrevocable letter of credit issued by Wachovia Bank, N. A., the trustee is entitled to draw amounts sufficient to

NOTES TO THE FINANCIAL STATEMENTS

pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee for the letter of credit of .26% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia in which it has agreed that upon the earlier of termination of the letter of credit or one year from a purchase draw date to repay amounts that represent purchase drawings under the letter of credit. Interest at the rate of prime is payable quarterly and upon draw repayment. At June 30, 2000, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends so that termination will not occur until 364 days after notice is received from Wachovia that the letter of credit will not be extended. As of June 30, 2000, the earliest such termination date is June 29, 2001.

Parking System, Series 1997C

On June 19, 1997, the University of North Carolina at Chapel Hill issued variable rate demand bonds in the amount of \$10,750,000 that have a final maturity date of May 15, 2027. The bonds are subject to mandatory sinking fund redemption that began on May 15, 2000. The proceeds of this issuance are to be used for the construction of the Health Affairs parking deck adjacent to UNC Hospitals on the campus of the University. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's paying agent, The Bank of New York. Salomon Smith Barney, Inc. is the remarketing agent.

The University has arranged for a standby bond purchase agreement with Bank of America, whereby the bank agrees to purchase 1997C bonds when remarketing proceeds are not available. This liquidity facility provides moneys only with respect to the purchase price of the bonds and does not otherwise secure payment of the bonds. The University is required to pay an annual commitment fee for the liquidity facility of .10% of the amount of bonds then currently outstanding.

The University has agreed to pay interest on each liquidity bond at LIBOR (London Interbank Offering Rate) plus .50% on each scheduled bond interest payment date. At June 30, 2000, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by Bank of America is received 365 days prior to the expiration date. As of June 30, 2000, the earliest such termination date is June 30, 2001.

Kenan Stadium, Series 1996

On November 7, 1996, the University of North Carolina at Chapel Hill issued variable rate demand bonds in the amount of \$13,800,000 that have a final maturity date of November 1, 2016. The bonds are subject to mandatory sinking fund redemption that began on November 1, 1998. The proceeds of this issuance were used for certain additions and renovations to Kenan Memorial Stadium. 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 agent, Bank of America.

Under an irrevocable letter of credit issued by Wachovia Bank, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee for the letter of credit of .30% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia in which it has agreed that upon the earlier of termination of the letter of credit or one year from a purchase draw date to repay amounts that represent purchase drawings under the letter of credit. Interest at the rate of prime is payable quarterly and upon draw repayment. At June 30, 2000, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends so that termination will not occur until 364 days after notice is received from Wachovia that the letter of credit will not be extended. As of June 30, 2000, the earliest such termination date is June 29, 2001.

Ambulatory Care Clinic, Series 1990

On May 15, 1990, the University of North Carolina at Chapel Hill issued money market municipal demand bonds in the amount of \$20,000,000 that have a final maturity date of July 1, 2012. The bonds are subject to mandatory sinking fund redemption that began on July 1, 1993. The proceeds of this issuance were used for financing the acquisition, construction, and equipping of clinical facilities at the University's School of Medicine and for paying the issuance costs of the 1990 bonds. The bonds were converted from money market municipal bonds to weekly rate bonds effective May 31, 1995. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's paying agent, Bankers Trust Company. Lehman Brothers, Inc. is the remarketing agent.

The University has arranged a standby bond purchase agreement with Bank of America, whereby the bank will purchase bonds on a purchase date at the purchase price when remarketing proceeds or other funds are not available. This liquidity facility pays only the principal portion of the purchase price and does not secure payment of the principal of or interest on the bonds. The University is required to pay an annual commitment fee for the liquidity facility of .10% of the amount of bonds then currently outstanding.

NOTES TO THE FINANCIAL STATEMENTS

The University has agreed to pay interest on each liquidity bond at LIBOR plus .40% on each scheduled bond interest payment date. At June 30, 2000, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by Bank of America is received 365 days prior to the expiration date. As of June 30, 2000, the earliest such termination date is June 30, 2001.

Ambulatory Care Clinic, Series 1992

On November 19, 1992, the University of North Carolina at Chapel Hill issued tax-exempt adjustable mode demand notes in the amount of \$3,000,000 that have a final maturity date of October 1, 2002. The bonds are subject to mandatory sinking fund redemption that began on October 1, 1994. The proceeds of this issuance were used to provide equipment for the ambulatory care building used by UNC Physicians and Associates and to pay the issuance costs of the notes. The notes are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Wachovia Bank, N. A.

The University has arranged a standby note purchase agreement with Wachovia Bank, N. A., whereby Wachovia will purchase notes tendered or deemed tendered for purchase on any purchase date at the purchase price plus accrued interest when remarketing proceeds or other funds are not available. The University is required to pay an annual commitment fee for the liquidity facility of .30% of the amount of notes then currently outstanding plus an amount for accrued interest.

Notes held by Wachovia under this liquidity facility are subject to mandatory redemption 180 days after the date of purchase by Wachovia at an amount equal to the principal plus accrued interest at the Adjusted Euro-Dollar rate. At June 30, 2000, no notes had been purchased under the liquidity facility.

The liquidity facility terminates not earlier than 180 days following delivery of a termination notice by Wachovia. As of June 30, 2000, the earliest such termination date is December 27, 2000.

Carolina Inn, Series 1994

On September 27, 1994, the University of North Carolina at Chapel Hill issued taxable flexible term demand bonds in the amount of \$13,475,000 that have a final maturity date of November 15, 2019. The bonds are subject to mandatory sinking fund redemption that began on November 15, 1998. The proceeds of this issuance were used to renovate and expand the Carolina Inn and to pay the costs incurred in connection with the issuance of the bonds. The bonds are subject to purchase on each interest payment date and on delivery to the University's paying agent, The Bank of New York.

The University has arranged a standby bond purchase agreement with Bank of America, whereby Bank of America will purchase bonds on a purchase date at the stated amount of principal plus accrued interest when remarketing proceeds or other funds are not available. The University is required to pay an annual standby fee for the liquidity facility of .10% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has agreed to pay interest on each liquidity bond at LIBOR plus .50% on each scheduled bond interest payment date. At June 30, 2000, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of this agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by Bank of America is received 365 days prior to the expiration date. As of June 30, 2000, the earliest such termination date is June 30, 2001.

School of Dentistry, Series 1995

On June 28, 1995, the University of North Carolina at Chapel Hill issued tax-exempt adjustable mode demand bonds in the amount of \$4,000,000 that have a final maturity date of September 1, 2010. The bonds are subject to mandatory sinking fund redemption that began on September 1, 1999. The proceeds of this issuance are for the construction of Tarrson Hall, which will house the majority of the School of Dentistry's patient care and clinical teaching facilities. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Wachovia Bank, N. A.

Under an irrevocable letter of credit issued by Wachovia Bank, N. A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of .35% of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest at the rate of prime for the first 90 days and prime plus 1.5% thereafter is payable quarterly and upon termination. At June 30, 2000, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends every month so that termination will not occur until 13 months after notice is received from Wachovia that the letter of credit will not be extended. As of June 30, 2000, the earliest such termination date is July 5, 2001.

NOTES TO THE FINANCIAL STATEMENTS**The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A – East Carolina University**

On November 3, 1998, East Carolina University issued variable rate demand bonds in the amount of \$3,645,000 that have a final maturity date of October 1, 2008. The bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The proceeds of this issuance were used to refinance notes payable which were issued to pay the costs of repairs to Dowdy-Ficklen Stadium, construction of the Blount Intramural Field, and construction of the Reade Street Parking Lot. 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 bond-paying agent, The Bank of New York. Upon notice from the bond-paying agent, the remarketing agent, Salomon Smith Barney, 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 between the Board of Governors of the University of North Carolina and Bank of America, a liquidity facility has been established for the trustee 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 standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 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 (LIBOR plus one percent). 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.

Upon expiration or termination of the agreement, the University is required to redeem (purchase) the liquidity provider bonds held by the liquidity facility in sixty equal monthly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the liquidity provider rate. The expiration date of the agreement is November 3, 2001 and may be extended for an additional period of up to three years at the discretion of the liquidity provider and acceptance by the Board of Governors of the University of North Carolina.

Amounts due under this standby bond purchase agreement are allocated by the trustee directly to and paid by the constituent universities participating in the system wide bond issuance.

Athletic Department, Series 1996

On December 1, 1996, East Carolina University issued tax-exempt adjustable mode demand bonds in the amount of \$7,000,000 that have a final maturity date of May 1, 2017. The bonds are subject to mandatory sinking fund redemption that began on May 1, 1998. The proceeds of this issuance were used to pay the cost of renovating and expanding Dowdy-Ficklen Stadium on the campus of East Carolina University and to pay the costs incurred in connection with the issuance of the 1996 bonds. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Alex. Brown & Sons, Inc.

Under an irrevocable direct-pay letter of credit issued by Wachovia Bank, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of .30% of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia Bank in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest is charged at the rate of prime. At June 30, 2000, no drawings had been made under the letter of credit.

The letter of credit automatically extends every month so that termination will not occur until 13 months after notice is received from Wachovia Bank that the letter of credit will not be extended. As of June 30, 2000, the earliest such termination date is July 31, 2001.

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A – The University of North Carolina at Asheville

On November 3, 1998, the University of North Carolina at Asheville issued variable rate demand bonds in the amount of \$2,580,000 that have a final maturity date of October 1, 2008. The bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The proceeds of this issuance were used to construct a 200-car parking structure. 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 bond paying agent, The Bank of New York. Upon notice from the bond-paying agent, the remarketing agent, Salomon Smith Barney, 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 between the Board of Governors of the University of North Carolina and the Bank of America, a liquidity facility has been established for the trustee 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 standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 1

NOTES TO THE FINANCIAL STATEMENTS

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 (LIBOR plus one percent). 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.

Upon expiration or termination of the agreement, the University is required to redeem (purchase) the liquidity provider bonds held by the liquidity facility in sixty equal monthly installments, beginning the first business day that is at

least 180 days following such expiration date or termination date along with accrued interest at the liquidity provider rate. The expiration date of the agreement is November 3, 2001 and may be extended for an additional period of up to three years at the discretion of the liquidity provider and acceptance by the Board of Governors of the University of North Carolina.

Amounts due under this standby bond purchase agreement are allocated by the trustee directly to and paid by the constituent universities participating in the system wide bond issuance.

NOTES TO THE FINANCIAL STATEMENTS

G. Debt Service Requirements

Bonds Payable and Notes Payable

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds and revenue bonds, as well as on notes payable, outstanding at June 30, 2000 (dollars in thousands). Current and long-term principal requirements are disclosed for the proprietary component unit funds.

Fiscal Year	Bonds Payable				Notes Payable		
	Primary Government	Component Units			Primary Government	Component Units	
	General	Proprietary			General	College and University	
	Long-Term Obligations Account Group	N. C. Housing Finance	Other Proprietary Funds	University Funds	Long-Term Obligations Account Group	Proprietary Funds	University Funds
2001	\$ 274,117	\$ 89,964	\$ 47,331	\$ 100,799	\$ 1,312	\$ 567	\$ 28,286
2002	266,745	92,432	48,228	93,667	1,312	99	6,584
2003	259,303	92,345	48,153	93,411	1,311	99	2,420
2004	251,950	91,420	55,983	92,899	1,311	99	1,865
2005	245,097	90,509	47,024	90,850	1,311	99	4,959
2006-2010	1,114,720	445,074	451,508	430,177	3,934	278	4,453
2011-2015	892,117	449,497	145,609	367,306	—	—	722
2016-2020	293,051	411,999	241,627	258,209	—	—	528
2021-2025	—	390,044	85,824	130,106	—	—	211
2026-2030	—	283,802	320,264	39,629	—	—	—
2031-2035	—	15,989	—	—	—	—	—
Total requirements	3,597,100	2,453,075	1,491,551	1,697,053	10,491	1,241	50,028
Less:							
Interest requirements	(1,082,370)	(1,252,175)	(784,393)	(653,600)	(1,694)	(163)	(6,777)
Unamortized discount	(4,744)	—	—	(11,090)	—	—	—
Deferred charges	—	(21,192)	—	(4,323)	—	—	—
Underwriters fees	—	—	—	(468)	—	—	—
Total principal requirements	<u>\$ 2,509,986</u>	<u>\$ 1,179,708</u>	<u>\$ 707,158</u>	<u>\$ 1,027,572</u>	<u>\$ 8,797</u>	<u>\$ 1,078</u>	<u>\$ 43,251</u>
Current portion		\$ 89,964	\$ 1,100			\$ 395	
Long-term portion		\$ 1,089,744	\$ 706,058			\$ 683	

NOTES TO THE FINANCIAL STATEMENTS**H. Arbitrage Rebate Payable**

The State and universities have incurred an arbitrage rebate liability in connection with general obligation and university revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2000 have been recorded (dollars in thousands) in the following funds:

Capital projects funds	\$ 105
Special revenue funds	7,765
University funds	<u>3,401</u>
Total	<u>\$ 11,271</u>

I. Bond Defeasances**University of North Carolina at Chapel Hill**

On December 1, 1999, the University of North Carolina at Chapel Hill used cash held with a fiscal agent in Debt Service and Maintenance Reserve Funds to defease \$128,000 of outstanding *Student Apartment Revenue Bonds, Series A (1961)*. Of the \$574,829 in available funds, \$124,465 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$136,855 over the next three years and obtained an economic gain of \$4,655. At June 30, 2000, the outstanding balance was \$128,000 for the defeased *Student Apartment Revenue Bonds, Series A (1961)*.

On December 1, 1999, the University of North Carolina at Chapel Hill used cash held with a fiscal agent in Debt Service and Maintenance Reserve Funds to defease \$1,225,000 of outstanding *Dormitory System Revenue Bonds, Series E, F and G (1963)*. Of the \$1,982,489 in available funds, \$1,140,678 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$1,330,314 over the next six years and obtained an economic gain of \$87,373. At June 30, 2000, the outstanding balance was \$1,225,000 for the defeased *Dormitory System Revenue Bonds, Series E, F and G (1963)*.

On December 1, 1999, the University of North Carolina at Chapel Hill used cash held with a fiscal agent in Debt Service, Maintenance Reserve and Revenue Funds to defease \$620,000 of outstanding *Student Fee Revenue Bonds (Student Recreation Center), Series 1991*. Available funds of \$542,337 from the Debt Service and Maintenance Reserve Funds plus \$7,662 in Revenue Fund cash were used to purchase U.S. Government securities. The purchased securities were placed in an

irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$706,700 over the next eight years and obtained an economic gain of \$71,556. At June 30, 2000, the outstanding balance was \$620,000 for the defeased *Student Fee Revenue Bonds (Student Recreation Center), Series 1991*.

North Carolina Agricultural and Technical State University

On January 12, 2000, North Carolina Agricultural and Technical State University used funds in the amount of \$3,983,514, available from the University's auxiliary system and debt service reserves, to advance refund (defease) \$4,005,000 of outstanding *Dormitory System Revenue Bonds, Series E*, with a combined average interest rate of 5.4%. The funds were used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$4,789,103 over the next eight years. At June 30, 2000, the outstanding balance was \$4,005,000 for the defeased *Dormitory System Revenue Bonds, Series E*.

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. Since adequate funds have been placed with a trustee to pay fully the principal and interest on these bonds, the liabilities are not recorded in these financial statements. At June 30, 2000, the outstanding balance of current and prior year defeased bonds was \$83.6 million for the primary government and \$143.1 million for the component units.

J. Bond Redemptions

Provisions of 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 or from unexpended bond proceeds of the issues along with the related decreases in the respective debt service reserve requirements. In addition, various bond issues are redeemable at the option of the Agency at premiums ranging up to 2% during periods from 10 to 16 years after the date of issuance.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables as of June 30, 2000 are as follows (dollars in thousands):

	<u><i>Interfund Receivables</i></u>	<u><i>Interfund Payables</i></u>
Primary Government		
General:		
General Fund.....	\$ 80,956	\$ 109,052
Special Revenue:		
State Highway Fund.....	152,940	11,524
Highway Trust Fund.....	—	83,251
Clean Water Management Trust Fund.....	—	7
Employment Security Commission Funds.....	85	—
Employment and Training Administration Fund.....	—	8
Highway Patrol Fund.....	45	241
Community Colleges Special Programs Fund.....	—	33,464
Wildlife Resources Commission Fund.....	240	337
Other Funds.....	<u>6,822</u>	<u>1,418</u>
Total Special Revenue Funds.....	<u>160,132</u>	<u>130,250</u>
Capital Projects:		
Capital Projects Fund.....	1,935	89
State Parks Bond Fund.....	—	1
Total Capital Projects Funds.....	<u>1,935</u>	<u>90</u>
Enterprise:		
Public School Insurance.....	—	3
N.C. State Fair.....	—	10
Total Enterprise Funds.....	<u>—</u>	<u>13</u>
Internal Service:		
Workers' Compensation Program.....	1,412	—
State Property Fire Insurance.....	—	2,529
Prison Enterprises.....	5,699	141
Motor Fleet Management.....	5,501	789
Courier Service.....	2	224
Temporary Solutions.....	506	2
N.C. Information Highway.....	90	2,596
Centralized Computing Services.....	14,976	2,740
State Telecommunications Services.....	8,945	63
Applications Development Services.....	446	6,163
Decentralized Computing Services.....	409	—
John Umstead Hospital Auxiliary Services.....	—	1
Surplus Property.....	<u>96</u>	<u>318</u>
Total Internal Service.....	<u>38,082</u>	<u>15,566</u>
Expendable Trust:		
Unemployment Compensation Funds.....	—	85
Escheat Fund.....	26,223	14,455
Recreation and Natural Heritage Trust Fund.....	255	—
Other Funds.....	<u>423</u>	<u>119</u>
Total Expendable Trust.....	<u>26,901</u>	<u>14,659</u>

NOTES TO THE FINANCIAL STATEMENTS

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Primary Government		
<i>(continued)</i>		
Nonexpendable Trust:		
Wildlife Endowment Program.....	—	1
Clean Water Revolving Loan and Grant Fund.....	—	2
Total Nonexpendable Trust.....	<u>—</u>	<u>3</u>
Pension Trust Funds:		
Firemen's and Rescue Squad Workers' Pension Fund.....	—	1
Agency:		
Local Sales Tax Collections.....	7,313	—
Clerks of Court.....	299	4,196
Departmental Agency Funds.....	19	10,353
Total Agency.....	<u>7,631</u>	<u>14,549</u>
Proprietary:		
State Education		
Assistance Authority.....	14,455	—
State Health Plan.....	—	1
N.C. State Ports Authority.....	649	—
North Carolina Railroad Company.....	—	87,590
N.C. Global TransPark Authority.....	—	26,234
N.C. Biotechnology Center.....	—	116
N.C. Partnership for Children	—	22,612
Total Proprietary Funds.....	<u>15,104</u>	<u>136,553</u>
College and University:		
University Funds.....	101,051	90,087
Community Colleges Funds.....	34,125	684
Total University and Community College.....	<u>135,176</u>	<u>90,771</u>
Subtotal.....	<u>\$ 465,917</u>	<u>\$ 511,507</u>
Timing difference — North Carolina Railroad Company.....	45,590	—
Total.....	<u>\$ 511,507</u>	<u>\$ 511,507</u>

Included in the category of interfund receivables are "Due from other funds," "Due from component units," "Due from primary government," and "Advance to component units." Included in the category of interfund payables are "Due to other funds," "Due to component units," "Due to primary government," and "Advance from primary government." Interfund payables exceeded interfund receivables in the amount of \$45.59 million due to timing differences in recognition of loan and interest repayment (\$25.672 million), and dividend earnings (\$19.918 million).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: RETIREMENT PLANS

The State reports seven retirement plans as pension trust funds. This note describes the six defined benefit public employee retirement plans administered by the State. The remaining plan, described in Note 10, is the Supplemental Retirement Income Plan, a defined contribution plan provided under the Internal Revenue Code Section 401(k). Although the assets of the six defined benefit 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. Separate reports are not issued for the plans described in this note. 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, and local boards of education not in the reporting entity. Membership is comprised of employees of state agencies and institutions, local boards of education, universities and community colleges and certain proprietary component units. At June 30, 2000, the number of participating local boards of education and component unit employers was 197 as shown below:

Local boards of education	117
Community colleges	58
University of North Carolina system ..	17
Proprietary component units	5

Benefits and administrative expenses are funded by member contributions of 6% of compensation and by employer contributions of 8.15% of covered payroll for the period July 1, 1999 through June 30, 2000, in addition to investment income. Benefit and actuarially based contribution provisions are established by G.S. 135-5 and 135-8 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 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 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 and employer contributions of 18.58 % of covered payroll for the period July 1, 1999 through June 30, 2000, in addition to investment income. Benefit and the actuarially based contribution provisions are established by G.S. 135-57, 135-58, 135-68 and 135-69 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 of the plan.

3. LEGISLATIVE RETIREMENT SYSTEM

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

The benefit will not be payable while the member is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System or the Local Governmental Employees' Retirement System. The plan's benefits and administrative expenses are funded by member contributions of 7% of compensation and employer contributions of 22.7% of covered payroll for the period July 1, 1999 through June 30, 2000, in addition to investment income. Benefit and actuarially based contribution provisions are established by G.S. 120-4.21, 120-4.19 and 120-4.20 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 of the plan.

NOTES TO THE FINANCIAL STATEMENTS

OTHER STATE ADMINISTERED SYSTEMS

The State also administers the following pension and retirement plans for persons who are not 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, 2000, there were 1,448 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 \$10 monthly contribution by the member, investment income and an actuarially based state appropriation. Benefit and contribution provisions are established by G.S. 58-86 and may be amended only by the North Carolina General Assembly.

5. 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 is also 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 and investment income. Benefit and contribution provisions are established by G.S. 127(a)-40 and may be amended only by the North Carolina General Assembly.

6. 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, 2000, the number of participating local governments was 867, as shown below:

Cities.....	397
Counties.....	100
Special districts.....	370

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. Employers contribute 5.27% of covered payroll for law enforcement officers and 4.80% for general employees and firemen for normal costs and an unfunded liability rate, which is established when the government initially enters the system. The State's responsibility is administrative only. Benefit and contribution provisions are established by G.S. 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:

	<u>Teachers' and State Employees'</u>	<u>Judicial</u>	<u>Legislative</u>	<u>Firemen's, Rescue</u>	<u>National Guard</u>	<u>Local Governmental</u>
Employee Groups						
Retirees and beneficiaries currently receiving benefits	102,938	361	189	7,551	1,907	28,562
Terminated employees entitled to benefits but not yet receiving them	39,292	46	92	147	5,386	11,979
Active plan members.....	<u>285,784</u>	<u>470</u>	<u>168</u>	<u>28,008</u>	<u>7,953</u>	<u>112,431</u>
Total.....	<u>428,014</u>	<u>877</u>	<u>449</u>	<u>35,706</u>	<u>15,246</u>	<u>152,972</u>
Date of Valuation	12-31-99	12-31-99	12-31-99	6-30-99	12-31-99	12-31-99

NOTES TO THE FINANCIAL STATEMENTS**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 an investment pool in which the systems participate. The investment balance of each system represents its share of the fair value of the net assets of various portfolios within the pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions resulting from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 4.

No retirement system has investments in any single commercial or industrial organization whose fair value would amount to more than five percent of the system's net assets available for benefits.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 1999 (June 30, 1999, for Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress are presented by system in the required supplementary section of this report. 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. In addition, actuarial adjustments are made for House Bill 1840 of the 2000 Session of the North Carolina General Assembly that mandates the smoothed market value computed for the Teachers' and State Employees' System can not exceed 77% of actual market value. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Cost Method</i>	<i>Amortization Method</i>	<i>Remaining Amortization Period</i>	<i>Period Open/Closed</i>	<i>Asset Valuation Method</i>	<i>Actuarial Assumptions</i>	
							<i>Investment Rate of Return</i>	<i>Projected Salary Increase</i>
Teachers' and State Employees'	12/31/1999	Entry age	Level percentage	23 years	Open	5 year smoothed, cap of 77% of market	7.25%	5.45-12.08%
Consolidated Judicial	12/31/1999	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.63-12.58%
Legislative	12/31/1999	Projected unit credit	Level dollar	None	Open	5 year smoothed	7.25%	7.50%
Firemen's, Rescue Squad Workers'	06/30/1999	Entry age	Level dollar	3 years	Open	5 year smoothed	7.25%	N/A
National Guard	12/31/1999	Entry age	Level dollar	5 years	Open	5 year smoothed	7.25%	N/A
Local Governmental Employees'	12/31/1999	Frozen entry age	Level percentage	Various	Closed	5 year smoothed	7.25%	5.45-12.08%

N/A-Not applicable

NOTES TO THE FINANCIAL STATEMENTS**NOTE 9: RETIREMENT PLANS (continued)**

The valuation for the Local Governmental Employees' system includes a 3.8% cost of living increase for retirees and an increase in the benefit accrual rate from 1.77% to 1.78%. The valuations for the Teachers' and State Employees' and Legislative Retirement systems reflect a 3.6% cost of living increase for retirees in these systems and an increase in the benefit accrual rate in the Teachers' and State Employees' system from 1.80% to 1.81%. The valuation for the Consolidated Judicial system incorporates a 2.6% cost of living increase to retirees. All of the benefit enhancements listed in this paragraph reflect legislation enacted by the North Carolina General Assembly and are effective July 1, 2000.

Since the prior year's valuation, the Teachers' and State Employees' system changed its computation of actuarial assets. As mentioned above, the current valuation computes an expected actuarial asset value and smoothes it to arrive at the amount (not to exceed 77 % of the actual market value) used in the valuation. In prior valuations, the amount of smoothing used in the computation was limited to 2.5% of the expected actuarial value with no market value cap imposed. The system also changed its amortization method. The prior year's valuation used a level dollar open amortization method with a remaining amortization period of 2 years. Also beginning with this valuation, all other systems except Legislative, that have December valuation dates, revised their method for computing the 5-year smoothed market value. The *Schedule of Funding Progress* presented in the Required Supplementary section of this report has been adjusted for the impact of these changes.

The projected investment returns and projected salaries for all systems, except the Legislative, include a 3.75% inflationary factor within the actuarial assumption. The assumption for the Legislative system does not identify an inflationary factor.

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 for the fiscal year ended June 30, 2000, 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, 1997, the Legislative system was valued at December 31, 1998, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 1998. These valuations used amortization periods of 40 years for Consolidated Judicial, 7 years for National Guard and 5 years for the Firemen's and Rescue Squad Worker's Fund. The Teachers' and State Employees' system used the level dollar amortization method that produced a remaining amortization period of 4 years. The Local Governmental Employees' system is an aggregate of numerous employers and consequently had 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.

During the current fiscal year, the Teachers' and State Employees', Consolidated Judicial and Legislative Retirement systems provided a 2.3% post-retirement benefit increase, while the Local Governmental Employees' system provided a 1.0% post-retirement benefit increase. These enhancements were effective July 1, 1999. The liabilities for these enhancements were reflected in the December 31, 1998, individual systems' valuations or paid for with actuarial gains.

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

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

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 8,434,751	\$ 811,286	\$ 12,104,780	\$ 2,545,219
Interest on net pension obligation.....	—	(32,323)	—	—
Adjustment to annual required contribution.....	—	109,542	—	—
Annual pension cost.....	<u>8,434,751</u>	<u>888,505</u>	<u>12,104,780</u>	<u>2,545,219</u>
Contributions made.....	<u>8,434,751</u>	<u>811,286</u>	<u>12,104,780</u>	<u>2,545,219</u>
Increase (decrease) in net pension obligation.....		77,219		
Net pension (asset) obligation beginning of year....	—	(445,834)	—	—
Net pension (asset) obligation end of year.....	<u>\$ —</u>	<u>\$ (368,615)</u>	<u>\$ —</u>	<u>\$ —</u>

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the required contributions the State made to the Teachers' and State Employees' Retirement System (the System), a cost-sharing, multiple-employer plan. The State's contribution equals its pension expense/expenditures for the System. The State does not make any contributions to the Local Governmental Employees' System; therefore, it does not have any 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, 1998 through June 30, 2000 (in thousands)

	<u>Teachers' and State Employees'</u>	<u>Judicial</u>	<u>Legislative</u>	<u>Firemen's, Rescue</u>	<u>National Guard</u>
Primary Government:					
2000	\$ 197,480	\$ 8,435	\$ 889	\$ 12,105	\$ 2,545
1999	173,989	7,263	857	12,105	2,533
1998	172,492	8,485	833	11,735	2,533
Component units:					
Universities:					
2000	\$ 91,805				
1999	79,770				
1998	79,572				
Community Colleges:					
2000	\$ 35,746				
1999	29,772				
1998	28,953				
Proprietary Funds:					
2000	\$ 1,250				
1999	1,114				
1998	1,076				
Total Primary Government and Component Units:					
2000	\$ 326,281	\$ 8,435	\$ 889	\$ 12,105	\$ 2,545
1999	284,645	7,263	857	12,105	2,533
1998	282,093	8,485	833	11,735	2,533
Percentage of APC Contributed:					
2000		100%	91%	100%	100%
1999		100%	94%	100%	100%
1998		100%	96%	100%	100%
Percentage of ARC Contributed:					
2000	100%				
1999	100%				
1998	100%				
Net Pension (Asset) Obligation:					
2000		\$ —	\$ (369)	\$ —	\$ —
1999		—	(446)	—	—
1998		—	(501)	—	—

The pension liabilities for the accounting transition year of 1997 (not shown) were determined in accordance with GASB 27. The prior and current year pension liability for all systems, except Legislative, is zero. Each system's APC for each year and the net pension asset for the Legislative System were calculated retroactively to 1993 in accordance with GASB 27 and contain the cumulative effect of applying that statement.

NOTES TO THE FINANCIAL STATEMENTS
E. Optional Retirement Plan

The Optional Retirement Program (Program) is a defined contribution retirement plan which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in universities of the UNC system may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2000, the Plan had 8,025 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 G.S. 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 \$40,727,124 for the 1999-00 fiscal year. Annual covered payroll was \$595,425,792 and employer contributions expressed as a percentage of annual covered payroll were 6.84% for the fiscal year ended June 30, 2000. Employee contributions expressed as a percentage of annual covered payroll were 6%, with an actual employee contribution of \$35,725,547 for the 1999-00 fiscal year.

Participants are vested after five years of service, but the company must return the value of the universities' 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.

F. 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 G.S. 135-1(11b) or G.S. 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 G.S. 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, 2000, the State and its component units paid \$7,582,361 for 638 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 state agency or paid from the component unit's operations for those employers who have eligible, retired law enforcement officers. These benefits are established in G.S. 143-166.41 and may be amended only by the General Assembly.

NOTE 10: 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 under the Department of Administration 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 Section 457. 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 in the CAFR as an expendable trust fund. All costs of administering and funding the Plan are the responsibility of the plan participants.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the Plan) in accordance with Internal Revenue Code Section 401(k). 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 are eligible to enroll in the Plan and may contribute up to 20% (limited to \$10,000 in 1999) 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.

NOTES TO THE FINANCIAL STATEMENTS

The Plan is a defined contribution pension plan that is administered by a third party. The administrator prepares financial statements based on the Plan's fiscal year. The audited statements for the year ended December 31, 1999, are presented in this financial report as a pension 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 represents loans to participants and are reported at outstanding principal balances. The Plan is administered by the Branch Banking and Trust Company (BB&T), and the Plan's financial statements are available by contacting the N.C. 401(k) Plan, P.O. Box 29541, Raleigh, NC 27626.

In addition to the voluntary contribution criteria above, G.S. 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. G.S. 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 G.S. 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 restrictions limit the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 1999, 38 state agencies and component units along with 480 local governmental units outside our reporting entity contributed the required 5%. In addition, 276 local government employers contributed to the Plan on a voluntary basis.

At December 31, 1999, the Plan disclosed the following investments (at fair value) exceeding five percent of the Plan's net assets:

BB&T Money Rate Savings Accounts.....	\$ 200,505,000
BB&T Bank Investment Contracts	327,038,000
Fidelity Equity-Income Fund.....	301,408,000
Fidelity Magellan Fund	1,010,157,000
Fidelity Spartan U.S. Equity	202,895,000

The Plan also reported total member contributions of \$142,430,000. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 1999, amounted to \$125,835,905 for the State, \$12,369,802 for universities, and \$841,142 for the other miscellaneous component units. The required 5% employer's contribution was made by the State for \$6,291,795, by universities for \$618,490, and by the remaining component units for \$42,057. In addition, the State contributed \$493,026 for the required court cost assessments.

IRC Section 403(b) Plans - Employees of the UNC 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees

The State Health Plan provides postemployment health insurance to former 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. Those former employees who are eligible to receive health care as an other postemployment benefit 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), and the University Employees' Optional Retirement Program (UEORP), with five or more years of contributory membership service in the Retirement System prior to disability or retirement. For the fiscal year ended June 30, 2000, the number of participants currently eligible to receive health care as an other postemployment benefit are 42,670 TSERS and DIPNC members (excluding LEA members), 237 CJRS members, 126 LRS members, and 548 UEORP members. The health insurance plan is the same as for active employees as described in Note 12, except that the coverage becomes secondary when former employees become eligible for Medicare. These former employees are eligible to participate in either the self-funded Comprehensive Major Medical Plan (Plan) or one of the health maintenance organization (HMO) plans.

The funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. These health care benefits are funded by employer contributions that are established in the biennial appropriation bill by the General Assembly. Typically the State, participating component units, and LEAs contribute a percentage of active employees' salaries monthly to the General Fund's Reserve for Retirees' Health Premium Account (Reserve). However, for the fiscal year ended June 30, 2000, the Legislature suspended collection of the contributions to the Reserve. The Reserve pays the full cost of coverage for long-term disability beneficiaries and retirees enrolled in the Plan and makes similar contributions for long-term disability beneficiaries and retirees enrolled in the HMO plans. Long-term disability beneficiaries and retirees pay for the additional cost of HMO coverage in excess of the Reserve's contribution and for the entire cost of coverage for their spouses and dependents. For the fiscal year ended June 30, 2000, the Reserve paid \$1,618.14 for each Medicare-eligible long-term disability beneficiary and retiree and \$2,125.62 for each non-Medicare-eligible long-term disability beneficiary

and retiree. At June 30, 2000, the Reserve had net assets at fair value of \$123,570,148. The net assets are available for future benefit payments. These benefits are established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly.

B. Disability Income

As discussed in Note 12, short-term and long-term disability benefits are provided to the eligible members of the Teachers' and State Employees' Retirement System and the University Employees' Optional Retirement Program through the Disability Income Plan of North Carolina (DIPNC), a component unit of the State. 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 of North Carolina (Retirement System) or the University Employees' Optional Retirement Program, earned within ninety-six 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 Retirement System; 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 Retirement System 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

NOTES TO THE FINANCIAL STATEMENTS

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 Retirement System, 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.

Long-term disability income benefits are advance-funded on an actuarially determined basis using the one-year term cost method. Disability income benefits are funded by employer contributions that are established in the Appropriations Bill by the General Assembly. For the calendar year ended December 31, 1999, the State, the University of North Carolina system, community colleges, and certain participating proprietary component units, and LEAs contributed .52% of active employees' salaries to fund the disability benefits. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees.

At December 31, 1999, DIPNC had 2,186 members, excluding LEA members, who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 248,817 active plan participants. 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.

The basis for estimating the liabilities for unpaid claims is discussed in Note 12. The market related actuarial value of the assets of DIPNC at December 31, 1999, was \$196,322,042 creating a deficit of \$22,205,276. The fair value of the assets for DIPNC at December 31, 1999 was \$192,775,283. The assets are available for future other postemployment benefits and benefits for eligible active employees.

Actuarial Assumptions for the calendar year ended**December 31, 1999:**

Discount rate	7.25%
Rate of return on investments assumption	7.25%
Projected salary increase assumption	5.75%
Projected social security benefits increase assumption	3.75%
Social security assumption	75%
Actuarially required contribution	\$23,362,850
Actual contribution made by:	
Primary Government	\$12,390,271
University of North Carolina system	8,719,003
Community Colleges	2,171,969
Certain participating proprietary component units	81,607
Total actual contribution made	<u>\$23,362,850</u>

These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

1. 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), which are not a part of the reporting entity. The community colleges, which are component units, can also acquire insurance through the Fund as stated in G.S. 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to carry extended coverage against fire and lightning damage to the extent of not less than seventy-five percent (75%) of the current insurable value for each insurable building. The boards also are to insure adequately the equipment and contents of said building. The Fund is financed by premiums collected from the LEAs and the community colleges and interest 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 State Board of Education a full and complete list of all outstanding fire insurance policies. While the said insurance policies remain in effect, the Fund shall act as coinsurer of the properties covered by such insurance. The Fund currently insures 99 out of 117 LEAs and 24 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. There are no salvage claims anticipated since any salvage is adjusted in the claim settlement. There are three 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 new insurance. 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	
	2000	1999
Unpaid claims at beginning of year	\$ 1,312	\$ 4,166
Incurred claims:		
Provision for insured events		
of the current year	17,719	4,916
Increases (decreases) in provision		
for insured events of prior years	1,886	(868)
Total incurred claims	<u>19,605</u>	<u>4,048</u>
Payments:		
Claims attributable to insured		
events of the current year	13,401	4,077
Claims attributable to insured		
events of the prior years	1,738	2,825
Total payments	<u>15,139</u>	<u>6,902</u>
Total unpaid claims at end		
of the year	<u>\$ 5,778</u>	<u>\$ 1,312</u>

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence (up to \$30 million per location) are covered by reinsurance policies. Total payments by the Fund over \$20 million a year (March 20, 1999 - March 20, 2000) are also paid by the reinsurers. Maximum recoverable from the reinsurers for any one catastrophe is \$1 billion per occurrence, or a \$300 million maximum on a flood or earthquake. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently there are no claims recoverable from reinsurers.

NOTES TO THE FINANCIAL STATEMENTS

B. Employee Benefit Plans

1. State Health Plan

In accordance with Chapter 135, Article 3, Part 3, of the General Statutes, the State provides comprehensive major medical care for employees and retirees of the State and its participating component units, as well as their dependents. This care is also extended to employees and retirees of the Local Education Agencies (LEAs), which are not part of the State's reporting entity. Coverage is self-funded by contributions to the State Health Plan (the Plan), a component unit of the State. Contributions for employee and retiree coverage are made by the State, its participating component units, and LEAs. Contributions for dependent coverage are made by employees and retirees. As described in Note 11, coverage is also extended to certain individuals as an other postemployment benefit. The Plan is administered by a third party who is responsible for the processing of claims and administration of cost containment. Health care is also made available through contractual agreements with health maintenance organizations (HMO). Monthly premium payments transfer the risk for health coverage to the Plan. The Plan does not assume risk for HMO contracts.

The Plan pays most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable allowances. Claims are subject to specified annual deductible and copayment requirements. The Plan disallows claims in excess of a lifetime maximum of \$2 million.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ 111,705	\$ 734,552	\$ 709,856	\$ 136,401
1999-00	136,401	816,842	820,076	133,167

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, an internal service 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 and Local Education Agencies (LEAs) which are not part of the reporting entity. 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 twelve month's salary in a row during the twenty-four months prior to his/her death.

The benefit is subject to a minimum of \$25,000 and to a maximum of \$50,000.

Death benefits are 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, and certain participating proprietary component units and LEAs contributed .16% of active employees' salaries to fund the Death Benefit Plan for the calendar year ended December 31, 1999.

These benefits are established by Chapter 135, Section 5(l), of the General Statutes 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):

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ 2,280	\$ 22,436	\$ 22,903	\$ 1,813
1999-00	1,813	23,091	23,366	1,538

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 component unit of the State, 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. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability, which is determined as the last actual day of service or the day succeeding at least 365 calendar days after the commencement of service, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. As discussed in Note 11, 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.

Claim liabilities for long-term disability benefits are actuarially estimated using the one-year term cost method. These liabilities represent the present value of future claim payments obligated to members who have become disabled. The claim liabilities are separated into the following two classifications: (1) approved claim liabilities are for long-term disabilities that have occurred, have been approved, and are in long-term payment status; and (2) incurred but not reported

NOTES TO THE FINANCIAL STATEMENTS

(IBNR) liabilities are for disabilities that have occurred but are not in payment status. The IBNR liabilities are estimated based on the historical claims experience of DIPNC.

Significant actuarial assumptions used to estimate claim liabilities are presented in Note 11. Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ 232,292	\$ 31,061	\$ 46,921	\$ 216,432
1999-00	216,432	43,105	41,010	218,527

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 \$250,000 of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$250,000. The liability limits for losses incurring in-state are \$150,000 per claimant and \$5 million per occurrence. For losses incurring out-of-state, the limits are \$1 million per claimant and \$5 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. Coverage for fire losses is free for all 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 fire losses up to \$1.1 million per occurrence and extended coverage losses up to \$100,000 per building and \$500,000 per occurrence, except for wind losses by named storms, which are covered up to 1% of the value for each location up to a maximum of \$3 million per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft, which carries a \$1,000 per occurrence deductible.

The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, other than 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 are paid when the Council of State approves the request for payment. 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. Claims payable at June 30, 2000 are disclosed on the balance sheet as a combination of claims and benefits payable of \$638 thousand, due to other funds of \$1.239 million, and due to component units of \$1.29 million. Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ 620	\$ 3,745	\$ 2,305	\$ 2,060
1999-00	2,060	2,924	1,817	3,167

NOTES TO THE FINANCIAL STATEMENTS**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 \$150,000 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 (UNC-CH 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) was created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978, to provide medical malpractice protection for program participants and individual health care practitioners working as employees, agents, or officers of the program participants. The program participants are University of North

Carolina Hospitals at Chapel Hill (UNC Hospitals) and the University of North Carolina at Chapel Hill Physicians and Associates, both of whom are a part of the University of North Carolina system, which is a component unit of the reporting entity. 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.

Coverage is provided on an occurrence basis. The Trust Fund limits the coverage to \$3 million per occurrence and to \$8 million in the annual aggregate. Commercial excess insurance is purchased with \$25 million per occurrence and \$50 million annual aggregate retention limits provided above the self-insurance retentions (excluding UNC Hospitals). The Trust Fund purchased a primary policy for dental residents on a claims made basis with \$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 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 \$33,557,782 and \$29,658,203 are the present values of the aggregate actuarially determined claims liabilities of \$35,897,811 and \$33,518,241, discounted at rates ranging from 6% to 7%, at June 30, 1999 and 2000, respectively. 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):

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ 35,851	\$ 8,044	\$ 10,337	\$ 33,558
1999-00	33,558	6,729	10,629	29,658

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 \$11 million excess insurance over the \$150,000 statutory limit payable for any one claim under the State Tort Claims Act. Since each State agency or component unit is responsible for funding any tort claims of \$150,000 or less from their budget, total claims liabilities are not measurable. Employers are charged a premium for the excess

NOTES TO THE FINANCIAL STATEMENTS

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 \$50,000 deductible and a 10% participation in each loss above the 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. On April 1, 1996, the Workers' Compensation Cost Containment Pilot Project was developed by the Office of State Budget and Management and the Office of State Personnel by authority of Chapter 507, Section 11.1 of the 1995 Session Laws. Seventeen state agencies and universities volunteered to participate in the Project. A third-party administrator was selected in a bidding process to administer workers' compensation claims for these seventeen agencies and universities. During the fiscal year ended June 30, 1999, the pilot project was deemed a success and the pilot status removed. Participation became mandatory for the remaining State agencies and institutions effective July 1, 1999 (with some exceptions). A third party administrator was selected for the new program. 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 responsible for paying claims out of its individual budget. 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, 2000, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	\$ 40,131
University of North Carolina system	3,644
All other component units	<u>64</u>
Total	<u>\$ 43,839</u>

NOTES TO THE FINANCIAL STATEMENTS
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 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 G.S. 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, 2000 was \$4.5 million. As of June 30, 2000, the Fund consisted of 1,180 eligible units representing approximately 37,352 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. 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, 2000, 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 \$350,000 per occurrence and a \$1 million limit for employer's liability above the Program's retention of \$350,000 per occurrence. The aggregate reinsurance provides for \$3 million of coverage above aggregate Program losses of \$5.6 million for policy year 1999-2000. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 2000,

there are claims recoverable from reinsurers in the amount of \$526,600.

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

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ 4,858	\$ 2,727	\$ 2,025	\$ 5,560
1999-00	5,560	3,887	2,419	7,028

7. Health Insurance Program for Children

The Health Insurance Program for Children (the Program) is an insurance enterprise reported within the enterprise funds. 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. Health benefits coverage provided to children eligible under the Program is equivalent to coverage provided for dependents under the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan (the Plan) which is discussed in part B.1. of this note. In addition to the benefits provided under the Plan, the Program also provides 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, 2000, \$20,570,615 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 DHHS based on the availability of funds. The Plan is responsible for the administration and processing of claims for benefits under the Program, as provided under Chapter 135, Article 3, Part 5 of the General Statutes. The Plan's self-insured indemnity program shall not incur any financial obligations for the program in excess of the amount of funds that the Plan's self-insured indemnity program receives for the program.

NOTES TO THE FINANCIAL STATEMENTS

Annual enrollment fees, copayments, or other cost-sharing charges are determined by family income. However, there are no enrollment fees, deductibles, copayments, 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 five percent of the family's income for the year involved. As of June 30, 2000, 65,129 children were insured under the Program.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). The following schedule shows the changes in the claims liability for the Program's first two years of operation (dollars in thousands):

	Beginning of Fiscal Year	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
	Liability	Estimates	Payments	Year-End
1998-99	\$ —	\$ 22,407	\$ 16,193	\$ 6,214
1999-00	6,214	79,491	69,728	15,977

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the State's enterprise funds for the year ended June 30, 2000 is presented below (dollars in thousands).

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Comp.	Indian Cultural Tourist Center	Other Funds	Total
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	
Operating revenues.....	\$ 7,250	\$ 2,366	\$ 7,859	\$ 2,186	\$ 895	\$ 3,005	\$ 4	\$ 1,404	\$ 24,969
Depreciation/amortization.....	—	—	569	186	623	—	9	64	1,451
Operating income (loss).....	(15,435)	(87,212)	329	(61)	(646)	(2,167)	(5)	(217)	(105,414)
Operating transfers in.....	—	20,571	—	—	120	—	—	205	20,896
Operating transfers (out).....	—	—	(585)	(1)	(32)	—	—	—	(618)
Net income (loss).....	(15,435)	2,248	(195)	2,235	(501)	(2,167)	(5)	53	(13,767)
Current capital contribution...	—	—	1,114	—	—	4,500	—	—	5,614
Fixed assets:									
Additions.....	—	—	1,143	20	31	—	—	—	1,194
Deletions.....	—	—	50	43	—	—	—	—	93
Current assets.....	30,159	28,505	5,572	5,196	916	23,877	36	796	95,057
Current liabilities.....	14,682	23,699	750	111	67	14,400	—	145	53,854
Net working capital.....	15,477	4,806	4,822	5,085	849	9,477	36	651	41,203
Total assets.....	30,159	28,505	14,338	7,556	9,791	23,877	495	2,567	117,288
Total equity (deficit).....	15,477	4,806	13,588	7,445	9,724	9,477	495	2,422	63,434

Principal enterprise fund activities:

[1] The **Public School Insurance** fund provides fire, theft and vandalism insurance for public school buildings and contents and offers risk management services.

[2] The **Child Health Insurance Program** provides comprehensive health insurance coverage to uninsured low-income children who are residents of this State.

[3] The **N.C. State Fair** in Raleigh provides annual competitive exhibition of North Carolina agricultural products as well as rural arts and crafts.

[4] The **USS North Carolina Battleship Commission** in Wilmington is open for public exhibition all year. The Commission administers the maintenance and exhibition costs of the battleship.

[5] The **Agricultural Farmers Market** in Raleigh provides a site where state farmers can sell fresh produce and other agricultural products directly to the public.

[6] The **Workers' Compensation Fund**, provides benefits to volunteer safety workers for workers' compensation. This fund is administered by the N.C. Department of Insurance.

[7] The **Indian Cultural Tourist Center**, located in Robeson County, is to promote and preserve the culture of the Indian people.

[8] **Other Governmental Enterprise Funds** have been organized to operate concession stands, bookstores, and vending and sales desks.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: COMPONENT UNITS — CONDENSED FINANCIAL INFORMATION

Condensed financial statements for the component unit funds as of and for the fiscal year ended June 30, 2000 are presented below (dollars in thousands).

Condensed Balance Sheet Component Units - Proprietary Funds

	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Global TransPark Authority	MCNC	Other Component Units	Total Proprietary Component Units
Current assets									
Due from primary government.....	\$ —	\$ 14,455	\$ —	\$ 649	\$ —	\$ —	\$ —	\$ —	\$ 15,104
Other.....	41,490	649,303	310,071	45,028	30,596	43,355	236,733	321,314	1,677,890
Non-current assets.....	1,331,832	652,737	—	227	—	—	693	3,306	1,988,795
Fixed assets.....	393	866	2	118,431	7,864	36,717	15,322	7,240	186,835
Total Assets.....	\$ 1,373,715	\$ 1,317,361	\$ 310,073	\$ 164,335	\$ 38,460	\$ 80,072	\$ 252,748	\$ 331,860	\$ 3,868,624
Current liabilities									
Due to primary government.....	\$ —	\$ —	\$ 1	\$ —	\$ 19,918	\$ 1,234	\$ —	\$ 22,612	\$ 43,765
Other.....	126,226	146,410	257,724	3,843	191	12,707	10,342	272,142	829,585
Long-term liabilities									
Advance from primary government.....	—	—	—	—	61,000	25,000	—	—	86,000
Bonds payable.....	1,089,744	695,398	—	10,660	—	—	—	—	1,795,802
Other.....	—	17,564	—	551	6,672	—	3,805	1,398	29,990
Fund equity.....	157,745	457,989	52,348	149,281	(49,321)	41,131	238,601	35,708	1,083,482
Total liabilities and fund equity.....	\$ 1,373,715	\$ 1,317,361	\$ 310,073	\$ 164,335	\$ 38,460	\$ 80,072	\$ 252,748	\$ 331,860	\$ 3,868,624

Condensed Statement of Revenues, Expenses and Changes in Fund Equity Component Units - Proprietary Funds

	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Global TransPark Authority	MCNC	Other Component Units	Total Proprietary Component Units
Operating revenues.....	\$ 87,789	\$ 76,277	\$ 792,741	\$ 25,969	\$ 24,319	\$ 333	\$ 37,467	\$ 61,685	\$ 1,106,580
Operating expenses									
Depreciation/amortization.....	160	640	2	8,009	9	950	7,050	665	17,485
All other.....	76,675	74,624	836,624	20,716	1,466	3,012	32,116	58,931	1,104,164
Operating income.....	10,954	1,013	(43,885)	(2,756)	22,844	(3,629)	(1,699)	2,089	(15,069)
Operating transfers from component units.....	—	10,192	—	—	—	—	—	—	10,192
Operating transfers from primary government.....	3,300	14,455	16	—	—	3,051	—	159,862	180,684
Operating transfers to component units.....	—	(353)	—	—	—	—	—	—	(353)
Operating transfers to primary government.....	(52)	—	—	(1)	(19,918)	—	—	—	(19,971)
Other nonoperating revenues (expenses).....	578	(121)	3	795	(2,066)	53	230,171	(142,183)	87,230
Net income (loss).....	14,780	25,186	(43,866)	(1,962)	860	(525)	228,472	19,768	242,713
Excess of revenues over (under) expenditures from governmental operations.....	(2,212)	—	—	—	—	—	—	—	(2,212)
Fund equity - July 1.....	145,177	432,803	96,214	149,256	(49,872)	27,130	9,735	15,574	826,017
Other changes in equity.....	—	—	—	1,987	(309)	14,526	394	366	16,964
Fund equity - June 30.....	\$ 157,745	\$ 457,989	\$ 52,348	\$ 149,281	\$ (49,321)	\$ 41,131	\$ 238,601	\$ 35,708	\$ 1,083,482

NOTES TO THE FINANCIAL STATEMENTS

Condensed Balance Sheet
Component Units - College and University Funds

	<i>University</i>	<i>Community Colleges</i>	<i>University and Community Colleges</i>
Assets			
Due from other funds.....	\$ 86,885	\$ 661	\$ 87,546
Due from component units.....	1,677	—	1,677
Due from primary government.....	12,489	33,464	45,953
Fixed assets.....	5,513,573	1,287,417	6,800,990
Other.....	4,638,527	313,308	4,951,835
Total assets.....	<u>\$ 10,253,151</u>	<u>\$ 1,634,850</u>	<u>\$ 11,888,001</u>
Liabilities			
Due to other funds.....	\$ 86,885	\$ 661	\$ 87,546
Due to component units.....	1,561	—	1,561
Due to primary government.....	1,641	23	1,664
Bonds payable.....	1,027,572	—	1,027,572
Notes payable.....	42,115	1,136	43,251
Other.....	1,499,068	86,022	1,585,090
Total liabilities.....	<u>2,658,842</u>	<u>87,842</u>	<u>2,746,684</u>
Fund equity			
Total fund equity.....	<u>7,594,309</u>	<u>1,547,008</u>	<u>9,141,317</u>
Total liabilities and fund equity.....	<u>\$ 10,253,151</u>	<u>\$ 1,634,850</u>	<u>\$ 11,888,001</u>

Condensed Statement of Revenues, Expenditures, and Changes in Fund Equity
Component Units - College and University Funds

	<i>University</i>	<i>Community Colleges</i>	<i>University and Community Colleges</i>
Revenues.....	\$ 3,653,774	\$ 656,827	\$ 4,310,601
Expenditures.....	5,015,895	1,101,262	6,117,157
Operating transfers from primary government.....	1,758,785	602,229	2,361,014
Operating transfers to primary government.....	(103,131)	—	(103,131)
Operating transfers from component units.....	353	—	353
Operating transfers to component units.....	(10,192)	—	(10,192)
Net increase in fund equity.....	283,694	157,794	441,488
Fund equity - July 1.....	7,318,405	1,390,467	8,708,872
Other changes in equity.....	(7,790)	(1,253)	(9,043)
Fund equity - June 30.....	<u>\$ 7,594,309</u>	<u>\$ 1,547,008</u>	<u>\$ 9,141,317</u>

Condensed Statement of Current Funds Revenues, Expenditures, and Transfers
Component Units - College and University Funds

	<i>University</i>	<i>Community Colleges</i>	<i>University and Community Colleges</i>
Revenues.....	\$ 2,296,192	\$ 435,524	\$ 2,731,716
Expenditures.....	3,727,825	969,685	4,697,510
Transfers and Additions (Deductions):			
Excess of restricted receipts over transfers to revenues.....	993	950	1,943
Refunded to grantors.....	(756)	—	(756)
Mandatory transfers.....	(79,513)	—	(79,513)
Non-mandatory transfers.....	(24,118)	(1,286)	(25,404)
Interinstitutional transfers.....	(2,705)	—	(2,705)
Operating transfers from primary government.....	1,632,581	541,720	2,174,301
Operating transfers to primary government.....	(15,064)	—	(15,064)
Operating transfers from component units.....	353	—	353
Operating transfers to component units.....	(10,192)	—	(10,192)
Net increase in fund equity.....	<u>\$ 69,946</u>	<u>\$ 7,223</u>	<u>\$ 77,169</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: RESERVED AND UNRESERVED DESIGNATED FUND BALANCES

Reserved Fund Balance. The State and its component units' reserved fund balances represent those portions of fund balance that are (1) not available for appropriation or expenditure, which includes loans receivable and long-term portion of advances to other funds, or (2) fund balances that are legally segregated by third parties for a specific use. The reserved fund balances at June 30, 2000, are (dollars in thousands):

	Governmental Fund Types			Governmental Component Unit
	<i>General</i>	<i>Special Revenue</i>	<i>Capital Projects</i>	<i>Golden LEAF Foundation</i>
Inventories.....	\$ 49,488	\$ 36,904	\$ —	\$ —
Reserved for specific encumbrances.....	66,531	8,751	—	—
Retirees' health premiums.....	123,570	—	—	—
Investments.....	47	—	—	—
Other purposes.....	—	922	—	—
Medicaid programs.....	6,138	—	—	—
Continuing programs.....	39,724	—	—	—
Advances to component units.....	42,000	—	—	—
Vacation, sick leave.....	—	37,739	—	—
Notes receivable.....	3,011	117,335	—	—
Prepaid items.....	—	74	—	12
Capital projects.....	—	42	56,555	—
Loan and grant commitments.....	—	113,998	—	—
Total Fund Balances				
Reserved.....	<u>\$ 330,509</u>	<u>\$ 315,765</u>	<u>\$ 56,555</u>	<u>\$ 12</u>

	Fiduciary Funds				
	<i>Expendable Trust</i>	<i>Non- expendable Trust</i>	<i>Pension Trust</i>	<i>Investment Trust</i>	<i>Fiduciary Totals</i>
Inventories.....	\$ 1,371	\$ —	\$ —	\$ —	\$ 1,371
Energy conservation.....	1,699	—	—	—	1,699
Other purposes.....	666	18	—	—	684
Advances to component units.....	25,000	—	—	—	25,000
Notes receivable.....	—	308,150	—	—	308,150
Claims and benefits.....	667,370	—	—	—	667,370
Loan and grant commitments.....	17,430	219,784	—	—	237,214
Abandoned property.....	224,577	—	—	—	224,577
Wildlife endowment.....	—	41,830	—	—	41,830
Investment pool participants.....	—	—	—	1,185,707	1,185,707
Employees' pension benefits.....	—	—	61,350,025	—	61,350,025
Total Fund Balances					
Reserved.....	<u>\$ 938,113</u>	<u>\$ 569,782</u>	<u>\$ 61,350,025</u>	<u>\$ 1,185,707</u>	<u>\$ 64,043,627</u>

NOTES TO THE FINANCIAL STATEMENTS

The universities and community colleges (*component units*) reserved fund balances at June 30, 2000, are (dollars in thousands):

	<u>University</u>	<u>Community Colleges</u>	<u>Total University and Community Colleges</u>
Loans.....	\$ 99,661	\$ 134	\$ 99,795
Endowments.....	1,016,603	13,132	1,029,735
Revenue bonds.....	67,194	—	67,194
Restricted funds.....	517,908	206,865	724,773
Total Fund Balances Reserved...	<u>\$1,701,366</u>	<u>\$ 220,131</u>	<u>\$ 1,921,497</u>

Unreserved Designated Fund Balance. The State's unreserved fund balance designations in the General Fund represent tentative plans for use in a future period. The State's internal governing body (*General Assembly*) establishes restrictions on the use of these assets which are reported as fund balance designations. Fund balance designations in the General Fund are established based on the amount of reserves available as measured on the budgetary basis of accounting and authorized carryforwards for continuing General Fund programs. These designations totaled \$870.647 million. As shown in the table below, the fund balance available to be designated was a negative \$64.834 million on a modified accrual basis (dollars in thousands):

Unreserved Designated Fund Balance	<u>General Fund</u>
Repairs and renovations.....	\$ 7,052
Clean Water Management Trust Fund.....	1,054
Disaster relief.....	543,565
Educational programs.....	162,131
Economic development.....	8,389
Continuing programs.....	27,176
Health and human services.....	119,192
Railroad dividends.....	918
Disproportionate share.....	1,170
Total designations.....	<u>\$ 870,647</u>
Unreserved fund balance, Exhibit A-1.....	<u>\$ (64,834)</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

As a result of review during the current reporting period, certain funds were reclassified from their June 30, 1999 presentation to more appropriate fund types. The most significant of these reclassifications resulted in the State Health Plan and the Disability Income Plan of North Carolina being reported as discretely presented component units instead of blended component units. The effects of these reclassifications appear in the "Entity Changes/Fund Reclassification" column. Some fund equity balances as of July 1, 1999, are restated for certain accounting changes or adjusted for the correction of errors in the reported balances of the fiscal year ended June 30, 1999. These changes are shown in the "Prior Year Adjustments and Restatements" column. The following table summarizes the above changes as they appear in the accompanying financial statements (dollars in thousands).

	June 30, 1999 Fund Equity as Previously Reported	Entity Changes/ Fund Reclass- ification	July 1, 1999 Fund Equity as Reported	Prior Year Adjustments/ Restatements	July 1, 1999 Fund Equity as Restated
Primary Government					
General Fund.....	\$ 1,144,130	\$ (208)	\$ 1,143,922	\$ (13,669)	\$ 1,130,253
Special Revenue.....	2,482,159	(1,860)	2,480,299	29,304	2,509,603
Capital Projects.....	277,427	—	277,427	(1,287)	276,140
Enterprise.....	71,369	208	71,577	10	71,587
Internal Service.....	575,376	(65,036)	510,340	1,265	511,605
Expendable Trust Funds.....	2,450,138	—	2,450,138	(9)	2,450,129
Nonexpendable Trust Funds.....	456,261	—	456,261	—	456,261
Pension Trust Funds.....	56,272,203	—	56,272,203	—	56,272,203
Investment Trust Fund.....	746,005	—	746,005	—	746,005
Total Primary Government.....	64,475,068	(66,896)	64,408,172	15,614	64,423,786
Component Units					
Governmental Funds.....	—	—	—	—	—
Proprietary Funds.....	781,598	44,419	826,017	1,839	827,856
College and University:					
University funds.....	7,168,279	150,126	7,318,405	(7,546)	7,310,859
Community colleges funds.....	1,390,782	(315)	1,390,467	(1,253)	1,389,214
Total Component Units.....	9,340,659	194,230	9,534,889	(6,960)	9,527,929
Total Reporting Entity.....	\$ 73,815,727	\$ 127,334	\$ 73,943,061	\$ 8,654	\$ 73,951,715

NOTE 17: RESIDUAL EQUITY TRANSFERS

Residual equity transfers out exceed residual equity transfers in by \$33.389 million due to the following transactions: (1) \$6 million transferred out from the General Fund to the State Ports Authority (Proprietary Component Unit), recorded by the Authority as an increase in contributed capital. (2) \$4 million transferred to the General Fund from the State Ports Authority, recorded by the Authority as a decrease in contributed capital. (3) \$4.5 million transferred out from the General Fund to the Workers' Compensation Fund (Enterprise Fund) recorded by the Workers' Compensation Fund as an increase in contributed capital. (4) \$409 thousand transferred out from the General Fund to the N.C. Low-level Radioactive Waste Management Authority (Proprietary Component Unit), recorded by the Authority as an increase in contributed capital. (5) \$58 thousand transferred to the General Fund from the N.C. Low-level Radioactive Waste Management Authority, recorded by the Authority as a decrease in contributed capital. (6) \$1 thousand transferred out of the Capital Projects Fund to the N.C. State Fair (Enterprise Fund), recorded by the Fair as an increase in contributed capital. (7) \$7.047 million transferred out from the Special Revenue Fund to the N.C. Global TransPark Authority (Proprietary Component Unit), recorded by the Authority as an increase in contributed capital. (8) \$232 thousand transferred out from the General Fund, \$14 thousand transferred out from the Special Revenue Fund, and \$244 thousand transferred out from the College and University Fund (Component Units) to the Workers' Compensation Program (Internal Service Fund), recorded by the Program as a increase in contributed capital. (9) \$19 million transferred out from the General Fund to the North Carolina Railroad Company (Proprietary Component Unit), not recorded by the Company because of fiscal year differences.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: 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 2030, the outstanding principal of such bonds and notes as of June 30, 2000, was \$3.6 billion with interest rates varying from 2.30 % to 8.00 %.

The State, by action of the General Assembly, created the North Carolina Educational Facilities Finance Agency which is authorized to issue tax-exempt bonds and notes to finance facilities and structures at private institutions of elementary, secondary, and postsecondary education. 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 issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2028, the outstanding principal of such bonds and notes as of June 30, 2000, was \$797.0 million with variable interest rates.

The State, by action of the General Assembly, created the North Carolina Industrial Facilities and Pollution Control Financing Authority which is authorized to issue tax-exempt bonds and notes to provide funds to be loaned by the Authority 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. 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 issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2009, the outstanding principal of such

bonds and notes as of June 30, 2000, was \$6.45 million with variable interest rates.

In the 1999-2000 session, the General Assembly adopted Senate Bill 1472 which renamed the North Carolina Educational Facilities Finance Agency as the North Carolina Capital Facilities Finance Agency and expanded its authority to permit assistance to the private sector in obtaining financing for capital improvements of facilities for activities that constitute a public purpose. The Bill also ratified all acts of the North Carolina Industrial Facilities and Pollution Control Financing Authority and transferred to the North Carolina Capital Facilities Finance Agency all duties, powers, jurisdiction, and responsibilities vested by statute or contract in the North Carolina Industrial Facilities and Pollution Control Financing Authority. These changes were effective July 1, 2000.

B. Litigation

Leandro et al v. State of North Carolina and State Board of Education — Right to a Sound Basic Education. 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. If not appealed, the ruling will require legislative action necessary to implement and fund pre-kindergarten programs. The cost of such programs is undetermined but may exceed \$100 million.

NOTES TO THE FINANCIAL STATEMENTS

Bailey v. State, Emory v. State, and Patton v. State -- State Tax refunds -- State and Federal Retirees. In 1992, State and local government retirees filed *Bailey, et al. v. North Carolina, et al.*, a class action lawsuit challenging repeal of the income tax exemptions for State and local government retirement benefits as a breach of contract and an unconstitutional impairment of their contract rights and seeking tax refunds for taxes paid in tax years 1989 through 1991. The *Bailey* plaintiffs obtained judgment in May 1995 in the Superior Court for Wake County, and on May 8, 1998, the Supreme Court of North Carolina upheld the Superior Court's decision. Several additional cases, also named *Bailey, et al. v. North Carolina, et al.*, and one named *Emory, et al. v. North Carolina, et al.*, were filed by State and local government retirees to preserve their refund claims for subsequent tax years through tax year 1997. The outcome of these cases was controlled by the outcome of the initial *Bailey* case.

In 1995, a group of federal government retirees filed *Patton, et al. v. North Carolina, et al.*, a class action tax refund lawsuit seeking refunds of State taxes paid on federal pension income since tax year 1989. The *Patton* plaintiffs claimed that if the *Bailey* plaintiffs prevailed on their refund claims, then the disparity of tax treatment accorded state and federal pension income held unconstitutional in *Davis v. Michigan* (1989) would be reestablished. In *Davis*, the United States Supreme Court ruled that a Michigan income tax statute that taxed federal retirement benefits while exempting those paid by state and local governments violated the constitutional doctrine of intergovernmental tax immunity. At the time of the *Davis* decision, North Carolina law contained similar exemptions in favor of State and local government retirees. The repeal of those exemptions in 1989 resulted in the *Bailey* case.

On June 10, 1998, the General Assembly reached an agreement settling the *Bailey, Emory* and *Patton* cases. The agreement, embodied in a consent order, provided that the State would pay \$799 million in two installments, one in 1998 and the other in 1999, to extinguish all liability for refunds for tax years 1989 through 1997 of taxes paid by federal, State and local government retirees who had five years creditable service in their retirement system prior to August 12, 1989, the date of enactment of the statute repealing the exemptions from taxation of State and local government retirement benefits, or who had "vested" by that date in certain "defined contribution" plans such as the State's 401(k) and deferred compensation plans. The consent order was conditioned upon the General Assembly appropriating the funds to make the payments set forth in the consent order and court approval of the settlement following notice to class members. A liability of \$399 million was recorded in the General Fund at June 30, 1999 and paid in July 1999. All payments required of the State by the settlement agreement have now been paid. The Superior Court is supervising payment of the refunds.

Smith v. State and Shaver v. State -- State Tax Refunds -- Intangibles Tax. The *Smith* case is a class action tax refund

lawsuit related to litigation in *Fulton Corporation v. Faulkner*, a case filed by a single taxpayer and decided by the United States Supreme Court in 1996 regarding the constitutionality of intangibles taxes previously collected by the State on shares of stock. On July 7, 1995, while the *Fulton* case was pending before the United States Supreme Court, the *Smith* class action was commenced in North Carolina Superior Court on behalf of all taxpayers who paid the tax and complied with the requirements of the applicable tax refund statute, G.S. 105-267, including its 30-day demand requirement. These original plaintiffs were later designated Class A when a second group of taxpayers were added. The new class, designated Class B, consisted of taxpayers who had paid the tax but failed to comply with the refund statute's 30-day demand requirement. On June 11, 1997, judgment was entered awarding the Class A plaintiffs refunds totaling \$120 million, with interest, and these refunds have been paid. In a separate order also entered on June 11, 1997, Class B was decertified and the refund claims of Class B taxpayers were dismissed. Class counsel appealed the Class B decertification/dismissal order, and on December 4, 1998, the North Carolina Supreme Court reversed the dismissal. As a result of the *Smith* decision, the State was required to pay refunds to Class B intangibles taxpayers.

A second class action tax refund lawsuit, *Shaver, et al. v. North Carolina, et al.*, was filed on January 16, 1998, by the same taxpayers as Class B plaintiffs in *Smith* under alternative theories of recovery for tax years 1991 through 1994 and for refunds for one additional tax year, 1990. Their additional claim for 1990 totals approximately \$100 million. A Settlement Agreement was executed on July 8, 1999, and a Consent Order Tentatively Approving Settlement was executed and signed by the presiding judge the same day. Pursuant to the Settlement Agreement and the Consent Order, the State paid the sum of \$200 million on October 1, 1999, and the sum of \$240 million on July 10, 2000 to distribute refunds to *Smith* Class B taxpayers for tax years 1991 through 1994 and to *Shaver* taxpayers for tax year 1990. (The settlement does not affect *Smith* Class A taxpayers because they have already been paid refunds). On September 24, 1999, the Court conducted a fairness hearing and entered an order approving the Class Action Settlement. In order to achieve the final consummation of the settlement, the General Assembly appropriated the \$240 million balance for the 2000-2001 fiscal year. The liability for the \$240 million is reported in the General Fund. All payments required of the State by the settlement have now been paid and the Superior Court is supervising payment of the refunds. The settlement fixes the State's liability for these claims and completes the litigation over North Carolina intangible taxes paid on shares of stock.

N.C. School Boards Association, et. al. v. Harlan E. Boyles, 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

NOTES TO THE FINANCIAL STATEMENTS

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.

For the last fiscal year for which information was available to them, plaintiffs allege liability of approximately \$84 million. Until this matter is resolved, any refunds and interest will continue to accrue. The North Carolina Attorney General's Office believes that sound legal arguments support the State's position on the outstanding claims.

Faulkenbury v. Teachers' and State Employees' Retirement System, Peele v. Teachers' and State Employees' Retirement System, and Woodard v. Local Governmental Employees' Retirement System — Disability Retirement Benefits. The plaintiffs are disability retirees who brought class actions in State court challenging changes in the formula for payment of disability retirement benefits and claiming impairment of contract rights, breach of fiduciary duty, violation of other federal constitutional rights, and violation of state constitutional and statutory rights. The Superior Court ruled in favor of the plaintiffs. The Order was affirmed by the North Carolina Supreme Court in 1997. The case went back to the Superior Court for calculations of benefits and payment of retroactive benefits, along with determination of various remedial issues. As a result of the remedial proceedings, there have been two appeals to the appellate courts concerning calculation of the retroactive benefits. The plaintiffs previously submitted documentation to the court asserting that the cost in damages and higher prospective benefit payments to the plaintiffs and class members would amount to \$407 million. Calculations and payments so far indicate that retroactive benefits will be significantly less than estimated, depending in part on the pending appeal. Payments have been made by the State of approximately \$83 million. A liability of \$43.6 million for the retroactive benefits has been booked in the Teachers' and State Employees Retirement System.

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 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 recently 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 North Carolina Attorney General's office believes that sound legal arguments support the State's position on this matter.

Ford Motor Credit v. State and Chrysler Credit v. State. — Installment Paper Dealer Tax. The plaintiffs purchased dealer installment sales contracts from automobile manufacturers that had financed new car inventories for automobile dealers in North Carolina. The Department of Revenue issued assessments against the plaintiffs, claiming that the purchase of the dealer's installment sales contracts was subject to the state of North Carolina's installment paper tax. The plaintiffs paid the tax assessments then sued the Department demanding refunds. A judgement was entered against the Department of Revenue in both cases. The combined liability is slightly over \$58.7 million. The appellate courts have affirmed the *Chrysler* judgment with the result that the Department was required to repay approximately \$20.5 million. The refund was paid in October 2000. On November 1, 2000, the North Carolina Court of Appeals issued an order accepting the Secretary of Revenue's motion to dismiss an appeal previously filed by the North Carolina Department of Revenue in the *Ford Motor Credit* case. As a result of withdrawing the appeal the Department will be required to repay approximately \$38.2 million. The liability is scheduled to be paid in November 2000. The issue raised by these cases is not expected to arise again with these taxpayers but may arise in connection with other taxpayers.

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which normally recur in 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

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies, although it is believed that disallowances, if any, will be immaterial.

D. Highway Construction

The State may be liable for approximately \$218.1 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional \$133.1 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 \$16.5 million.

NOTES TO THE FINANCIAL STATEMENTS**E. USDA-Donated Commodities**

The State has custodial responsibility for \$1.75 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, 2000, the State had commitments of \$1,560.7 million for construction of highway facilities. Of this amount, \$1,185.3 million relates to the Highway Fund, and \$375.4 million relates to the Highway Trust Fund. The other commitments for construction and improvements of State government facilities totaled \$412.9 million (including \$365.8 million for the Department of Environment and Natural Resources, \$11.4 million for the Department of Correction, and \$10.9 million for the Department of Health and Human Services).

At June 30, 2000, the University of North Carolina system (component unit) had outstanding construction commitments of \$235.3 million (including \$71.5 million for University of North Carolina - Chapel Hill, \$50.7 million for UNC Hospitals, and \$18.3 million for East Carolina University).

At June 30, 2000, community colleges (component units) had outstanding construction commitments of \$25.9 million (including \$6.1 million for Cape Fear Community College, \$3.0 million for Fayetteville Technical Community College, and \$3.0 million for Johnston Community College).

At June 30, 2000, proprietary component units had outstanding commitments of \$28.4 million (including \$12.8 million for State Ports Authority and \$10.9 million for State Education Assistance Authority).

NOTE 19: RELATED ORGANIZATION

North Carolina Phase II Tobacco Certification Entity, Inc. – Phase II is one of the two tobacco settlements negotiated by cigarette-makers and the states. Under this settlement, tobacco companies agreed to create a \$5.15 billion trust fund to compensate tobacco growers and quota holders in 14 grower states, including North Carolina, over the next twelve years from an anticipated decline in cigarette sales. North Carolina growers and allotment holders could receive about \$2 billion, the largest portion of the settlement among the states. The money will be distributed in accordance with a plan designed

and approved by a certification entity in each State. The certification entity in North Carolina is a nonprofit corporation governed by a 14-member board. The board is comprised of the Governor; the Commissioner of Agriculture; the Attorney General; a state Senator, appointed by the President Pro Tempore of the Senate; a state Representative, appointed by the Speaker of the House; two members of the North Carolina congressional delegation, selected by the delegation; and seven citizens appointed by the Governor.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: SUBSEQUENT EVENTS

Appalachian State University. On July 11, 2000 the University sold \$10.2 million in Parking System Revenue Bonds, Series 2000, with rates ranging from 5.25% to 5.625%. The bonds were issued to pay the cost of constructing a parking facility containing 720 spaces.

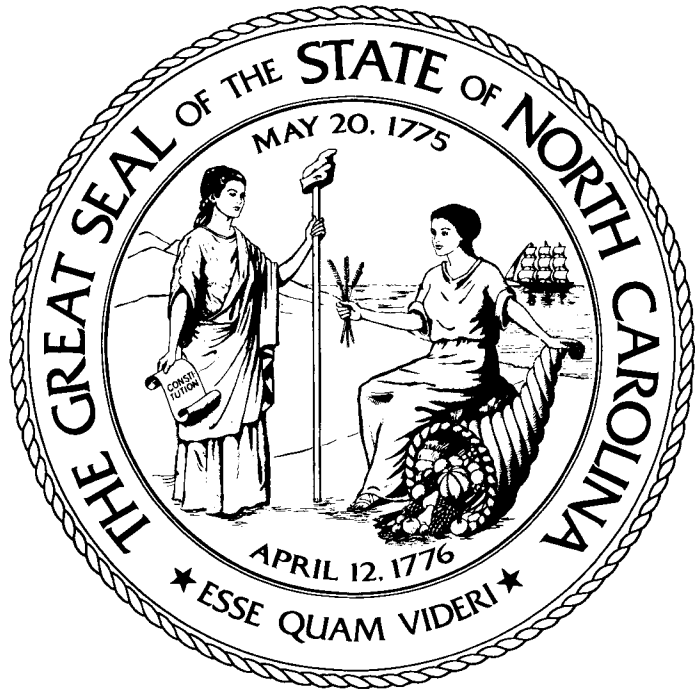
On July 11, 2000 the University sold \$13.225 million in Housing and Student Center System Revenue Bonds, Series 2000, with rates ranging from 5.25% to 5.625%. The bonds were issued to pay the cost of constructing and equipping a new residence hall to house approximately 320 students.

The University will also be participating in the University of North Carolina System Pool Revenue Bonds, Series 2000 to finance the renovation of ASU Broyhill Inn and Conference Center (the "Conference Center") in the amount of \$1.427 million. The expected delivery date is October 31, 2000. The repayment of the loan will be secured by a pledge of the net revenues of the ASU Broyhill Inn and Conference Center and a pledge of the net revenues of the Housing and Student Center System. The proceeds of the loan, net of proportionate costs of issuance and proceeds used to fund a debt service reserve fund, will be used to finance renovations to the Conference Center.

North Carolina General Obligation Bonds. On August 23, 2000, the State sold \$300 million of General Obligation Public Improvement Bonds, Series 2000A, representing a consolidation of \$295 million Public School Building Bonds and \$5 million Natural Gas Bonds. The Bonds will be dated September 1, 2000, will bear interest from that date, payable on each March 1 and September 1, beginning March 1, 2001, and will mature, subject to the redemption provisions annually, September 1, \$12 million 2001 to 2015, inclusive, \$48 million 2016 and 2017 and \$24 million, 2018.

On November 7, 2000, the State's voters approved \$3.1 billion of University and Community College general obligation bonds. The \$3.1 billion is projected to be issued over the six-year period beginning in fiscal year 2000-01, with repayments scheduled for fiscal year 2001-02 through fiscal year 2024-25. Total debt service for all of the State's outstanding general obligation debt is projected to be at its highest in fiscal year 2006-07, at \$722 million (*assuming no additional voter approved debt in subsequent years*). Outstanding general obligation debt is projected to peak at \$6.043 billion for fiscal year 2005-06. The General Assembly has predetermined the specific building projects to be funded by the bond proceeds.

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REQUIRED
SUPPLEMENTARY
INFORMATION

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

June 30, 2000

(Expressed in Thousands)

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a) <i>NOTE 1</i>	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-99 B	\$ 34,883,261	\$ 32,787,108	\$ (2,096,153)	106.4%	\$ 8,437,649	(24.8)%
	12-31-98 B	31,847,438	30,354,222	(1,493,216)	104.9%	7,994,826	(18.7)%
	12-31-97	27,765,057	28,071,156	306,099	98.9%	7,373,713	4.2%
	12-31-96 A	25,357,460	25,478,193	120,733	99.5%	6,845,185	1.8%
	12-31-95	22,178,592	22,663,750	485,158	97.9%	6,595,618	7.4%
	12-31-94	20,394,957	20,908,734	513,777	97.5%	6,323,410	8.1%
Consolidated Judicial	12-31-99 c	\$ 259,706	\$ 241,303	\$ (18,403)	107.6%	\$ 43,037	(42.8)%
	12-31-98	226,712	225,944	(768)	100.3%	40,926	(1.9)%
	12-31-97	207,706	199,204	(8,502)	104.3%	39,698	(21.4)%
	12-31-96 A	188,722	183,442	(5,280)	102.9%	36,608	(14.4)%
	12-31-95	164,358	175,126	10,768	93.9%	35,665	30.2%
	12-31-94	151,366	161,732	10,366	93.6%	34,114	30.4%
Legislative	12-31-99	\$ 19,674	\$ 16,795	\$ (2,879)	117.1%	\$ 3,719	(77.4)%
	12-31-98	17,885	15,975	(1,910)	112.0%	3,615	(52.8)%
	12-31-97	16,186	14,761	(1,425)	109.7%	3,605	(39.5)%
	12-31-96 A	14,563	13,715	(848)	106.2%	3,573	(23.7)%
	12-31-95	12,883	12,685	(198)	101.6%	3,616	(5.5)%
	12-31-94	11,281	11,137	(144)	101.3%	3,309	(4.4)%
Firemen's, Rescue Squad Workers'	6-30-99	\$ 175,245	\$ 196,569	\$ 21,324	89.2%	N/A	N/A
	6-30-98	158,332	190,451	32,119	83.1%	N/A	N/A
	6-30-97 A	142,169	173,030	30,861	82.2%	N/A	N/A
	6-30-96	123,265	160,233	36,968	76.9%	N/A	N/A
	6-30-95	110,196	157,644	47,448	69.9%	N/A	N/A
	6-30-94	101,563	123,691	22,128	82.1%	N/A	N/A
National Guard	12-31-99 c	\$ 39,445	\$ 47,731	\$ 8,286	82.6%	N/A	N/A
	12-31-98	34,090	43,065	8,975	79.2%	N/A	N/A
	12-31-97	30,274	42,766	12,492	70.8%	N/A	N/A
	12-31-96 A	26,648	39,421	12,773	67.6%	N/A	N/A
	12-31-95	22,643	37,559	14,916	60.3%	N/A	N/A
	12-31-94	20,159	34,817	14,658	57.9%	N/A	N/A
Local Governmental	12-31-99 c	\$ 8,818,583	\$ 8,885,530	\$ 66,947	99.2%	\$ 3,117,204	2.2%
	12-31-98	7,625,281	7,687,973	62,692	99.2%	2,929,544	2.1%
	12-31-97	6,928,217	6,991,702	63,485	99.1%	2,742,504	2.3%
	12-31-96 A	6,258,674	6,321,622	62,948	99.0%	2,593,671	2.4%
	12-31-95	5,411,167	5,472,970	61,803	98.9%	2,429,402	2.5%
	12-31-94	4,911,161	4,971,957	60,796	98.8%	2,280,714	2.7%

NOTE 1 a negative UAAL denotes excess actuarial assets

- A-** Actuarial value of assets was revised from cost to 5-year smoothed market
B- Beginning with the 1999 valuation, House Bill 1840 directs the 5-year smoothed market to be capped at 77% of actual market. 1998 funding progress as reported in the 1999 CAFR was revised to reflect the effects of House Bill 1840.
C- Actuarial change in computing 5-year smoothed market asset valuation.

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 89.

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

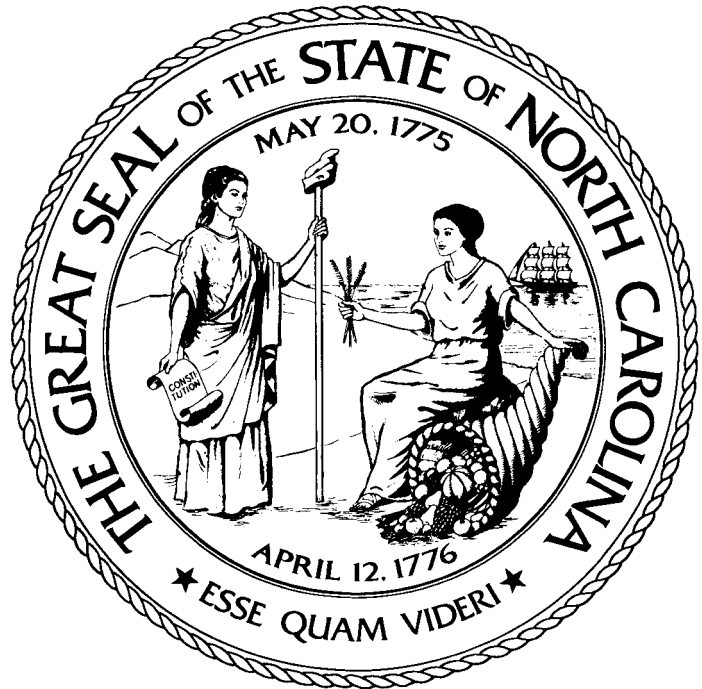
For the Six-Year Period 1995 to 2000 (July 1 to June 30)

(Expressed in Thousands)

<u>Retirement System</u>	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Teachers' and State Employees'	2000	\$ 735,393	100%
	1999	630,049	100%
	1998	610,377	100%
	1997	593,481	100%
	1996	559,980	100%
	1995	564,336	100%
Consolidated Judicial	2000	\$ 8,435	100%
	1999	7,263	100%
	1998	8,485	100%
	1997	7,976	100%
	1996	7,536	100%
	1995	7,371	100%
Legislative	2000	\$ 811	100%
	1999	770	104%
	1998	741	108%
	1997	742	108%
	1996	725	104%
	1995	739	156%
Firemen's, Rescue Squad Workers'	2000	\$ 12,105	100%
	1999	12,105	100%
	1998	11,735	100%
	1997	11,735	100%
	1996	11,735	100%
	1995	7,449	100%
National Guard	2000	\$ 2,545	100%
	1999	2,533	100%
	1998	2,533	100%
	1997	2,303	100%
	1996	2,283	100%
	1995	2,189	100%
Local Governmental Employees'	2000	\$ 168,201	100%
	1999	157,764	100%
	1998	149,058	100%
	1997	142,952	100%
	1996	136,390	100%
	1995	129,915	100%

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 89.

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*COMBINING,
INDIVIDUAL FUND
AND
ACCOUNT GROUP
STATEMENTS
AND
SCHEDULES*

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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 special revenue funds:

- State Highway Fund
- Highway Trust Fund
- Tobacco Settlement
- Public School Building Capital Fund
- Public School Bond Fund
- Clean Water Management Trust Fund
- Educational Materials and School Buses Fund
- Employment Security Commission Funds
- Employment and Training Administration Fund
- Highway Patrol Fund
- Clean Water Funds
- Leaking Petroleum Underground Storage Tank Cleanup Fund
- Community Colleges Special Programs Fund
- Natural Gas Bond Proceeds Fund
- Wildlife Resources Commission Fund
- Other Funds

SPECIAL REVENUE FUNDS COMBINING BALANCE SHEET

June 30, 2000

(Dollars in Thousands)

	State Highway Fund	Highway Trust Fund	Tobacco Settlement	Public School Bond Fund	Public School Building Capital Fund	Clean Water Management Trust Fund	Educational Materials, School Buses Fund
ASSETS							
Cash and cash equivalents.....	\$ 269,963	\$ 858,227	\$ 96,417	\$ 182,523	\$ 114,765	\$ 135,473	\$ 24,583
Securities lending collateral.....	217,584	467,588	56,343	—	67,065	79,188	—
Receivables:							
Taxes receivable.....	78,492	28,596	—	—	—	—	—
Accounts receivable.....	1,669	343	—	—	—	—	110
Intergovernmental receivables.....	93,903	—	—	—	—	—	484
Interest receivable.....	1,643	3,932	468	1,058	785	666	—
Other receivables.....	9,182	—	—	—	—	—	—
Due from other funds.....	152,940	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	—
Inventories.....	60,069	—	—	—	—	—	26,276
Prepaid items.....	—	—	—	—	—	—	—
Sureties.....	15,016	—	—	—	—	—	—
Total Assets.....	<u>\$ 900,461</u>	<u>\$ 1,358,686</u>	<u>\$ 153,228</u>	<u>\$ 183,581</u>	<u>\$ 182,615</u>	<u>\$ 215,327</u>	<u>\$ 51,453</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 104,074	\$ 13,940	\$ —	\$ —	\$ —	\$ 235	\$ 45,167
Accrued payroll.....	25,107	—	—	—	—	1	—
Intergovernmental payables.....	89,042	46,039	—	—	—	575	—
Arbitrage rebate payable.....	—	—	—	3,900	—	—	—
Obligations under securities lending.....	217,584	467,588	56,343	—	67,065	79,188	—
Due to other funds.....	11,183	83,251	—	—	—	7	—
Due to component units.....	341	—	—	—	—	—	—
Claims payable.....	—	—	—	—	—	—	—
Deposits payable.....	89,612	371	—	—	—	—	—
Deferred revenue.....	5,132	—	—	—	—	—	—
Total Liabilities.....	<u>542,075</u>	<u>611,189</u>	<u>56,343</u>	<u>3,900</u>	<u>67,065</u>	<u>80,006</u>	<u>45,167</u>
Fund Balances:							
Reserved for:							
Reserved for specific							
encumbrances.....	8,751	—	—	—	—	—	—
Inventories.....	3,887	—	—	—	—	—	26,276
Vacation, sick leave.....	37,739	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	—
Prepaid items.....	—	—	—	—	—	—	—
Capital projects.....	—	—	—	—	—	—	—
Loan and grant commitments.....	—	—	—	—	—	108,828	—
Other purposes.....	922	—	—	—	—	—	—
Unreserved:							
Undesignated.....	307,087	747,497	96,885	179,681	115,550	26,493	(19,990)
Total Fund Balances.....	<u>358,386</u>	<u>747,497</u>	<u>96,885</u>	<u>179,681</u>	<u>115,550</u>	<u>135,321</u>	<u>6,286</u>
Total Liabilities and Fund Balances.....	<u>\$ 900,461</u>	<u>\$ 1,358,686</u>	<u>\$ 153,228</u>	<u>\$ 183,581</u>	<u>\$ 182,615</u>	<u>\$ 215,327</u>	<u>\$ 51,453</u>

Exhibit B-1

Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Clean Water Funds	Community Colleges Special Programs Fund	Natural Gas Bond Proceeds Fund	Wildlife Resources Commission Fund	Other Funds	Totals
\$ 5,374	\$ 4,299	\$ 1,313	\$ 28,423	\$ 171,742	\$ 37,211	\$ 23,470	\$ 12,416	\$ 560,484	\$ 2,526,683
—	942	—	16,400	28	—	—	6,100	186,460	1,097,698
—	—	—	1,557	—	—	—	—	707	109,352
387	336	1	2,580	—	—	—	439	6,595	12,460
2,499	—	—	—	—	—	—	1,392	1,527	99,805
—	—	—	130	1,639	—	100	47	2,792	13,260
—	—	—	—	—	—	—	—	—	9,182
85	45	—	—	—	—	—	240	6,822	160,132
—	—	—	1,230	82,934	—	—	—	33,171	117,335
630	4,250	—	—	—	—	—	964	897	93,086
74	—	—	—	—	—	—	—	—	74
—	—	—	—	—	—	—	—	31,768	46,784
<u>\$ 9,049</u>	<u>\$ 9,872</u>	<u>\$ 1,314</u>	<u>\$ 50,320</u>	<u>\$ 256,343</u>	<u>\$ 37,211</u>	<u>\$ 23,570</u>	<u>\$ 21,598</u>	<u>\$ 831,223</u>	<u>\$ 4,285,851</u>
\$ 2,719	\$ 2,092	\$ 12	\$ 16	\$ —	\$ —	\$ —	\$ 683	\$ 8,338	\$ 177,276
115	534	—	—	—	—	—	129	314	26,200
—	1	—	—	—	—	—	320	1,654	137,631
—	—	—	—	627	—	—	—	3,238	7,765
—	942	—	16,400	28	—	—	6,100	186,460	1,097,698
—	241	8	—	—	—	—	337	1,418	96,445
—	—	—	—	—	33,464	—	—	—	33,805
38	—	—	—	—	—	—	—	—	38
—	—	—	—	—	—	—	—	31,768	121,751
—	244	—	—	—	—	—	—	5,518	10,894
<u>2,872</u>	<u>4,054</u>	<u>20</u>	<u>16,416</u>	<u>655</u>	<u>33,464</u>	<u>—</u>	<u>7,569</u>	<u>238,708</u>	<u>1,709,503</u>
—	—	—	—	—	—	—	—	—	8,751
630	4,250	—	—	—	—	—	964	897	36,904
—	—	—	—	—	—	—	—	—	37,739
—	—	—	1,230	82,934	—	—	—	33,171	117,335
74	—	—	—	—	—	—	—	—	74
—	—	—	—	—	—	—	—	42	42
—	—	—	—	1,615	—	—	—	3,555	113,998
—	—	—	—	—	—	—	—	—	922
<u>5,473</u>	<u>1,568</u>	<u>1,294</u>	<u>32,674</u>	<u>171,139</u>	<u>3,747</u>	<u>23,570</u>	<u>13,065</u>	<u>554,850</u>	<u>2,260,583</u>
<u>6,177</u>	<u>5,818</u>	<u>1,294</u>	<u>33,904</u>	<u>255,688</u>	<u>3,747</u>	<u>23,570</u>	<u>14,029</u>	<u>592,515</u>	<u>2,576,348</u>
<u>\$ 9,049</u>	<u>\$ 9,872</u>	<u>\$ 1,314</u>	<u>\$ 50,320</u>	<u>\$ 256,343</u>	<u>\$ 37,211</u>	<u>\$ 23,570</u>	<u>\$ 21,598</u>	<u>\$ 831,223</u>	<u>\$ 4,285,851</u>

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

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	State Highway Fund	Highway Trust Fund	Tobacco Settlement	Public School Bond Fund	Public School Building Capital Fund	Clean Water Management Trust Fund	Educational Materials, School Buses Fund
Revenues:							
Taxes.....	\$ 786,403	\$ 807,208	\$ —	\$ —	\$ 79,448	\$ —	\$ —
Federal funds.....	834,685	—	—	—	—	—	—
Local funds.....	14,852	464	—	—	—	—	1,269
Investment earnings.....	28,149	56,676	3,305	23,775	13,134	12,609	—
Interest earnings on loans.....	—	—	—	—	—	—	—
Sales and services.....	4,633	—	—	—	—	—	4,408
Sale, rental and lease of property.....	9,486	2,168	—	—	—	—	1,229
Fees, license, fines, and settlements.....	377,788	93,445	189,405	—	—	—	—
Contributions, gifts and grants.....	—	—	—	—	—	—	—
Miscellaneous.....	6,799	22	—	—	—	—	—
Total revenues.....	<u>2,062,795</u>	<u>959,983</u>	<u>192,710</u>	<u>23,775</u>	<u>92,582</u>	<u>12,609</u>	<u>6,906</u>
Expenditures:							
Current:							
General government.....	—	—	1,121	—	—	—	—
Education.....	—	—	—	511,296	65,832	—	84,348
Health and human services.....	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—
Environment and natural resources.....	—	—	—	—	—	24,793	—
Public safety, corrections, and regulation.....	—	—	—	—	—	—	—
Transportation.....	2,146,629	451,976	—	—	—	—	—
Agriculture.....	—	—	—	—	—	—	—
Debt service:							
Principal retirement.....	—	16,675	—	—	—	—	—
Interest.....	—	10,933	—	—	—	—	—
Total expenditures.....	<u>2,146,629</u>	<u>479,584</u>	<u>1,121</u>	<u>511,296</u>	<u>65,832</u>	<u>24,793</u>	<u>84,348</u>
Excess revenues over (under) expenditures.....	<u>(83,834)</u>	<u>480,399</u>	<u>191,589</u>	<u>(487,521)</u>	<u>26,750</u>	<u>(12,184)</u>	<u>(77,442)</u>
Other Financing Sources (Uses):							
Operating transfers in.....	388,696	—	—	—	—	30,000	80,478
Operating transfers from component units.....	19,918	—	—	—	—	—	—
Operating transfers out.....	(183,324)	(473,891)	—	(11,059)	(6,308)	(48)	(714)
Operating transfers to component units.....	(3,059)	—	(94,704)	—	—	—	—
Proceeds from capital leases.....	339	—	—	—	—	—	—
Proceeds from bond sale.....	—	—	—	—	—	—	—
Total other financing sources (uses).....	<u>222,570</u>	<u>(473,891)</u>	<u>(94,704)</u>	<u>(11,059)</u>	<u>(6,308)</u>	<u>29,952</u>	<u>79,764</u>
Excess revenues and other sources over (under) expenditures and other uses.....	<u>138,736</u>	<u>6,508</u>	<u>96,885</u>	<u>(498,580)</u>	<u>20,442</u>	<u>17,768</u>	<u>2,322</u>
Fund balances — July 1.....	226,830	740,989	—	678,261	95,108	117,553	(1,489)
Restatements.....	—	—	—	—	—	—	—
Residual equity transfers out.....	(7,047)	—	—	—	—	—	(500)
Increase (decrease) in reserve for related assets.....	<u>(133)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,953</u>
Fund balances — June 30.....	<u>\$ 358,386</u>	<u>\$ 747,497</u>	<u>\$ 96,885</u>	<u>\$ 179,681</u>	<u>\$ 115,550</u>	<u>\$ 135,321</u>	<u>\$ 6,286</u>

Exhibit B-2

Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Clean Water Funds	Community Colleges Special Programs Fund	Natural Gas Bond Proceeds Fund	Wildlife Resources Commission Fund	Other Funds	Totals
\$ —	\$ —	\$ —	\$ 17,190	\$ —	\$ —	\$ —	\$ 12,366	\$ 58,331	\$ 1,760,946
106,306	2,325	58,603	—	—	—	—	7,628	68,640	1,078,187
11,083	—	3	—	—	—	—	188	1,104	28,963
—	257	—	2,212	7,855	—	908	894	27,152	176,926
—	—	—	42	4,711	—	—	—	603	5,356
—	2,084	—	—	—	—	—	1,523	11,679	24,327
—	2,159	—	—	—	—	—	160	1,583	16,785
2,182	1,942	—	8,192	—	—	—	17,380	146,033	836,367
2,964	762	—	—	—	—	—	7,983	29,836	41,545
1,052	86	1	—	—	—	—	173	1,925	10,058
<u>123,587</u>	<u>9,615</u>	<u>58,607</u>	<u>27,636</u>	<u>12,566</u>	<u>—</u>	<u>908</u>	<u>48,295</u>	<u>346,886</u>	<u>3,979,460</u>
—	—	—	—	—	—	—	—	53,505	54,626
—	—	—	—	—	—	—	—	47,114	708,590
—	—	—	—	—	—	—	—	55,252	55,252
143,307	—	60,051	—	—	—	—	—	123,223	326,581
—	—	—	25,912	764	—	—	42,223	74,915	168,607
—	142,977	—	—	—	—	—	—	33,540	176,517
—	—	—	—	—	—	—	—	—	2,598,605
—	—	—	—	—	—	—	—	72,247	72,247
—	—	—	—	—	—	—	—	—	16,675
—	—	—	—	—	—	—	—	—	10,933
<u>143,307</u>	<u>142,977</u>	<u>60,051</u>	<u>25,912</u>	<u>764</u>	<u>—</u>	<u>—</u>	<u>42,223</u>	<u>459,796</u>	<u>4,188,633</u>
(19,720)	(133,362)	(1,444)	1,724	11,802	—	908	6,072	(112,910)	(209,173)
18,666	126,303	2,400	5,207	—	19,568	—	3,511	356,181	1,031,010
—	—	—	—	—	—	—	—	921	20,839
(63)	(2,250)	(149)	(3,438)	(20,006)	—	(2,338)	(8,510)	(72,421)	(784,519)
—	—	—	—	—	(22,895)	—	—	(1,000)	(121,658)
—	—	—	—	—	—	—	—	—	339
—	—	—	—	175,000	—	25,000	—	—	200,000
<u>18,603</u>	<u>124,053</u>	<u>2,251</u>	<u>1,769</u>	<u>154,994</u>	<u>(3,327)</u>	<u>22,662</u>	<u>(4,999)</u>	<u>283,681</u>	<u>346,011</u>
(1,117)	(9,309)	807	3,493	166,796	(3,327)	23,570	1,073	170,771	136,838
7,424	14,401	487	30,411	88,892	7,074	—	13,028	461,330	2,480,299
—	—	—	—	—	—	—	—	(29,304)	(29,304)
(14)	—	—	—	—	—	—	—	(10,300)	(17,861)
(116)	726	—	—	—	—	—	(72)	18	6,376
<u>\$ 6,177</u>	<u>\$ 5,818</u>	<u>\$ 1,294</u>	<u>\$ 33,904</u>	<u>\$ 255,688</u>	<u>\$ 3,747</u>	<u>\$ 23,570</u>	<u>\$ 14,029</u>	<u>\$ 592,515</u>	<u>\$2,576,348</u>

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

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	Employment and Training Administration Fund			Employment Security Commission Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
Departmental:						
Federal funds.....	\$ 105,981	\$ 58,565	\$ (47,416)	\$109,660	\$106,436	\$ (3,224)
Local funds.....	133	32	(101)	11,000	11,054	54
Inter-agency grants and allocations.....	—	—	—	2,090	3,316	1,226
Intra-governmental transactions.....	2,476	2,400	(76)	35,751	32,855	(2,896)
Sales and services.....	—	—	—	—	—	—
Sale, rental and lease of property.....	4	—	(4)	—	—	—
Fees, licenses and fines.....	—	—	—	—	—	—
Contributions, gifts and grants.....	—	—	—	—	—	—
Miscellaneous.....	—	1	1	1,100	1,084	(16)
Total revenues.....	<u>108,594</u>	<u>60,998</u>	<u>(47,596)</u>	<u>159,601</u>	<u>154,745</u>	<u>(4,856)</u>
Expenditures:						
Current:						
General government.....	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—
Environment and natural resources.....	—	—	—	—	—	—
Economic development.....	108,594	60,216	48,378	159,601	153,237	6,364
Public safety and corrections.....	—	—	—	—	—	—
Total expenditures.....	<u>108,594</u>	<u>60,216</u>	<u>48,378</u>	<u>159,601</u>	<u>153,237</u>	<u>6,364</u>
Excess revenues over (under) expenditures..	<u>\$ —</u>	<u>782</u>	<u>\$ 782</u>	<u>\$ —</u>	<u>1,508</u>	<u>\$ 1,508</u>
Unreserved fund balances (budgetary basis) at July 1, 1999.....		<u>490</u>			<u>1,697</u>	
Unreserved fund balances (budgetary basis) at June 30, 2000.....		<u>\$ 1,272</u>			<u>\$ 3,205</u>	

Exhibit B-3

Highway Patrol Fund			Wildlife Resources Commission Fund			Other Funds		
<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
\$ 2,366	\$ 2,325	\$ (41)	\$ 6,994	\$ 7,360	\$ 366	\$ 73,755	\$ 48,892	\$ (24,863)
—	—	—	288	288	—	292	1	(291)
1,060	754	(306)	7,789	7,657	(132)	3,986	3,589	(397)
143,038	128,410	(14,628)	34,856	34,997	141	75,680	62,324	(13,356)
1,544	2,028	484	1,580	1,522	(58)	5,105	5,229	124
3,957	2,158	(1,799)	225	133	(92)	86	80	(6)
356	356	—	16,880	17,206	326	79,889	72,317	(7,572)
—	—	—	176	116	(60)	370	269	(101)
48	85	37	214	758	544	1,492	3,678	2,186
<u>152,369</u>	<u>136,116</u>	<u>(16,253)</u>	<u>69,002</u>	<u>70,037</u>	<u>1,035</u>	<u>240,655</u>	<u>196,379</u>	<u>(44,276)</u>
—	—	—	—	—	—	75,939	69,050	6,889
—	—	—	—	—	—	693	673	20
—	—	—	73,870	69,962	3,908	38,599	31,177	7,422
—	—	—	—	—	—	76,555	47,015	29,540
<u>152,369</u>	<u>144,497</u>	<u>7,872</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,908</u>	<u>45,650</u>	<u>12,258</u>
<u>152,369</u>	<u>144,497</u>	<u>7,872</u>	<u>73,870</u>	<u>69,962</u>	<u>3,908</u>	<u>249,694</u>	<u>193,565</u>	<u>56,129</u>
<u>\$ —</u>	<u>(8,381)</u>	<u>\$ (8,381)</u>	<u>\$ (4,868)</u>	<u>75</u>	<u>\$ 4,943</u>	<u>\$ (9,039)</u>	<u>2,814</u>	<u>\$ 11,853</u>
	<u>11,068</u>			<u>12,341</u>			<u>82,621</u>	
	<u>\$ 2,687</u>			<u>\$ 12,416</u>			<u>\$ 85,435</u>	

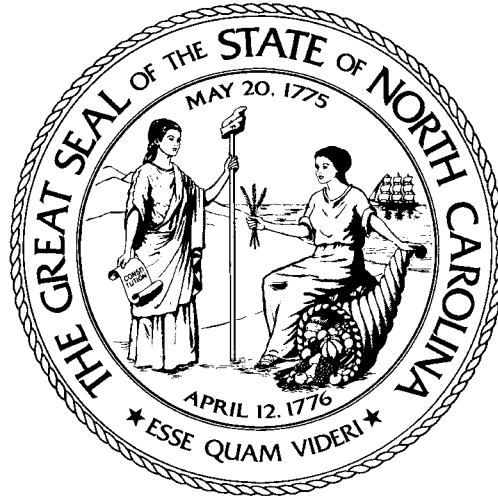
SPECIAL REVENUE FUNDS**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNRESERVED FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)**

For the Fiscal Year Ended June 30, 2000

Exhibit B-3

(Dollars in Thousands)

	<i>Totals -</i>		
	<u>Budgeted Special Revenue Funds</u>		
			<i>Variance</i>
	<u>Budget</u>	<u>Actual</u>	<i>Favorable</i>
			<i>(Unfavorable)</i>
Revenues:			
Departmental:			
Federal funds.....	\$ 298,756	\$223,578	\$ (75,178)
Local funds.....	11,713	11,375	(338)
Inter-agency grants and allocations.....	14,925	15,316	391
Intra-governmental transactions.....	291,801	260,986	(30,815)
Sales and services.....	8,229	8,779	550
Sale, rental and lease of property.....	4,272	2,371	(1,901)
Fees, licenses and fines.....	97,125	89,879	(7,246)
Contributions, gifts and grants.....	546	385	(161)
Miscellaneous.....	2,854	5,606	2,752
Total revenues.....	<u>730,221</u>	<u>618,275</u>	<u>(111,946)</u>
Expenditures:			
Current:			
General government.....	75,939	69,050	6,889
Health and human services.....	693	673	20
Environment and natural resources.....	112,469	101,139	11,330
Economic development.....	344,750	260,468	84,282
Public safety and corrections.....	210,277	190,147	20,130
Total expenditures.....	<u>744,128</u>	<u>621,477</u>	<u>122,651</u>
Excess revenues over (under) expenditures..	<u>\$ (13,907)</u>	<u>(3,202)</u>	<u>\$ 10,705</u>
Unreserved fund balances (budgetary basis) at July 1, 1999.....		<u>108,217</u>	
Unreserved fund balances (budgetary basis) at June 30, 2000.....		<u>\$105,015</u>	



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 general obligation bonds.

The following activities are included in the capital projects funds:

Capital Projects Fund
State Capital Facilities Legislative Bond Fund of 1991
State Prison and Youth Services Facilities Bond Fund
State Parks Bond Fund

**CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

Exhibit C-1

(Dollars in Thousands)

	Capital Projects Fund	State Capital Facilities Legislative Bond Fund of 1991	State Prison and Youth Services Facilities Bond Fund	State Parks Bond Fund	Totals
ASSETS					
Cash and cash equivalents.....	\$ 211,040	\$ 3	\$ 5,280	\$ 1,184	\$ 217,507
Receivables:					
Accounts receivable.....	27	—	—	—	27
Intergovernmental receivables.....	1,109	—	—	—	1,109
Interest receivable.....	—	—	28	—	28
Due from other funds.....	1,935	—	—	—	1,935
Total Assets.....	<u>\$ 214,111</u>	<u>\$ 3</u>	<u>\$ 5,308</u>	<u>\$ 1,184</u>	<u>\$ 220,606</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 8,357	\$ —	\$ —	\$ 25	\$ 8,382
Intergovernmental payables.....	153	—	—	—	153
Arbitrage rebate payable.....	—	—	105	—	105
Due to other funds.....	89	—	—	1	90
Deposits payable.....	4,978	—	—	204	5,182
Total Liabilities.....	<u>13,577</u>	<u>—</u>	<u>105</u>	<u>230</u>	<u>13,912</u>
Fund Balances:					
Reserved for capital projects.....	56,469	—	—	86	56,555
Unreserved:					
Undesignated.....	144,065	3	5,203	868	150,139
Total Fund Balances.....	<u>200,534</u>	<u>3</u>	<u>5,203</u>	<u>954</u>	<u>206,694</u>
Total Liabilities and Fund Balances.....	<u>\$ 214,111</u>	<u>\$ 3</u>	<u>\$ 5,308</u>	<u>\$ 1,184</u>	<u>\$ 220,606</u>

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

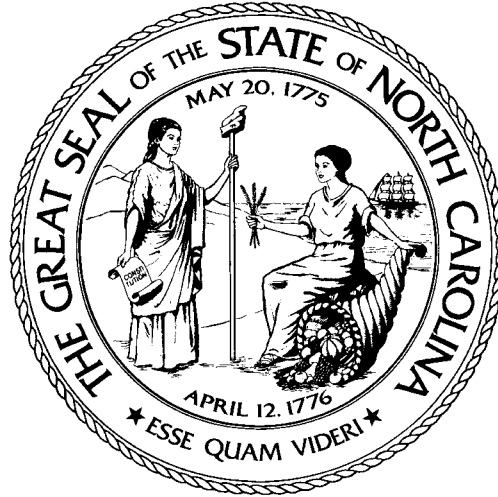
For the Fiscal Year Ended June 30, 2000

Exhibit C-2

(Dollars in Thousands)

	Capital Projects Fund	State Capital Facilities Legislative Bond Fund of 1991	State Prison and Youth Services Facilities Bond Fund	State Parks Bond Fund	Totals
Revenues:					
Federal funds.....	\$ 18,906	\$ —	\$ —	\$ —	\$ 18,906
Investment earnings.....	—	—	283	—	283
Sales and services.....	355	—	—	—	355
Sale, rental and lease of property.....	21	—	—	—	21
Fees, licenses and fines.....	1	—	—	—	1
Contributions, gifts and grants.....	22,555	—	—	—	22,555
Miscellaneous.....	1,850	—	—	—	1,850
Total revenues.....	<u>43,688</u>	<u>—</u>	<u>283</u>	<u>—</u>	<u>43,971</u>
Expenditures:					
Capital outlay.....	<u>157,967</u>	<u>—</u>	<u>22</u>	<u>1,252</u>	<u>159,241</u>
Total expenditures.....	<u>157,967</u>	<u>—</u>	<u>22</u>	<u>1,252</u>	<u>159,241</u>
Excess revenues over (under) expenditures.	<u>(114,279)</u>	<u>—</u>	<u>261</u>	<u>(1,252)</u>	<u>(115,270)</u>
Other Financing Sources (Uses):					
Operating transfers in.....	124,940	—	—	54	124,994
Operating transfers from component units..	907	—	—	—	907
Operating transfers out.....	<u>(79,321)</u>	<u>(1)</u>	<u>(190)</u>	<u>(548)</u>	<u>(80,060)</u>
Total other financing sources (uses).....	<u>46,526</u>	<u>(1)</u>	<u>(190)</u>	<u>(494)</u>	<u>45,841</u>
Excess revenues and other sources over (under) expenditures and other uses.....	<u>(67,753)</u>	<u>(1)</u>	<u>71</u>	<u>(1,746)</u>	<u>(69,429)</u>
Fund balances—July 1.....	269,598	4	5,125	2,700	277,427
Restatements.....	(1,294)	—	7	—	(1,287)
Residual equity transfers out.....	<u>(17)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(17)</u>
Fund balances—June 30.....	<u>\$ 200,534</u>	<u>\$ 3</u>	<u>\$ 5,203</u>	<u>\$ 954</u>	<u>\$ 206,694</u>

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ENTERPRISE FUNDS

The enterprise funds are maintained to account for the operations of State government that provide goods or services to the general public in a manner similar to private business enterprises. The costs of providing these goods or services are financed through user charges.

The following activities are included in the enterprise funds. See Note 13 in the Notes to the Financial Statements for a description of the goods and services offered by these activities.

Governmental Enterprise Funds

- Public School Insurance
- Child Health Insurance Program
- North Carolina State Fair
- USS North Carolina Battleship Commission
- Agricultural Farmers Market
- Indian Cultural Tourist Center
- Workers' Compensation
- Other Enterprise Funds:
 - Cultural Resources Historic Site Sales
 - Services for the Blind

**ENTERPRISE FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

Exhibit D-1

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
ASSETS									
Current Assets:									
Cash and cash equivalents.....	\$ 7,524	\$ 13,446	\$ 5,465	\$ 970	\$ 899	\$ 35	\$ 8,460	\$ 709	\$ 37,508
Investments.....	13,712	—	—	3,456	—	—	8,844	—	26,012
Securities lending collateral.....	6,751	6,898	—	—	—	—	6,533	—	20,182
Receivables:									
Accounts receivable.....	—	19	43	4	—	1	—	27	94
Intergovernmental receivables.....	—	8,077	—	—	—	—	—	—	8,077
Interest receivable.....	36	65	—	—	—	—	40	—	141
Premiums receivable.....	866	—	—	—	—	—	—	—	866
Contributions receivable.....	—	—	—	436	—	—	—	—	436
Inventories.....	—	—	64	234	17	—	—	60	375
Prepaid items.....	1,270	—	—	96	—	—	—	—	1,366
Total current assets.....	<u>30,159</u>	<u>28,505</u>	<u>5,572</u>	<u>5,196</u>	<u>916</u>	<u>36</u>	<u>23,877</u>	<u>796</u>	<u>95,057</u>
Noncurrent Assets:									
Contributions receivable.....	—	—	—	452	—	—	—	—	452
Total noncurrent assets.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>452</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>452</u>
Fixed Assets:									
Land.....	—	—	1,379	97	1,087	292	—	—	2,855
Buildings.....	—	—	13,107	1,115	9,244	280	—	1,888	25,634
Other structures and improvements..	—	—	4,261	412	3,508	—	—	—	8,181
Machinery and equipment.....	—	—	888	1,398	327	27	—	43	2,683
Construction in progress.....	—	—	—	778	—	—	—	—	778
Accumulated depreciation.....	—	—	(10,869)	(1,892)	(5,291)	(140)	—	(160)	(18,352)
Total fixed assets.....	<u>—</u>	<u>—</u>	<u>8,766</u>	<u>1,908</u>	<u>8,875</u>	<u>459</u>	<u>—</u>	<u>1,771</u>	<u>21,779</u>
Total Assets.....	<u>\$ 30,159</u>	<u>\$ 28,505</u>	<u>\$ 14,338</u>	<u>\$ 7,556</u>	<u>\$ 9,791</u>	<u>\$ 495</u>	<u>\$ 23,877</u>	<u>\$ 2,567</u>	<u>\$117,288</u>
LIABILITIES AND FUND EQUITY									
Current Liabilities:									
Accounts payable and accrued liabilities:									
Accounts payable.....	\$ 12	\$ 824	\$ 107	\$ 32	\$ 12	\$ —	\$ 39	\$ 26	\$ 1,052
Accrued payroll.....	5	—	12	28	3	—	—	1	49
Obligations under securities lending.	6,751	6,898	—	—	—	—	6,533	—	20,182
Due to other funds.....	3	—	10	—	—	—	—	—	13
Claims payable.....	5,778	15,977	—	—	—	—	7,028	—	28,783
Accrued vacation leave.....	46	—	112	49	52	—	—	26	285
Deferred revenue.....	2,087	—	509	2	—	—	800	92	3,490
Total current liabilities.....	<u>14,682</u>	<u>23,699</u>	<u>750</u>	<u>111</u>	<u>67</u>	<u>—</u>	<u>14,400</u>	<u>145</u>	<u>53,854</u>
Fund Equity:									
Contributed capital.....	—	—	11,875	513	13,921	599	18,000	1,849	46,757
Retained earnings.....	15,477	4,806	1,713	6,932	(4,197)	(104)	(8,523)	573	16,677
Total Fund Equity.....	<u>15,477</u>	<u>4,806</u>	<u>13,588</u>	<u>7,445</u>	<u>9,724</u>	<u>495</u>	<u>9,477</u>	<u>2,422</u>	<u>63,434</u>
Total Liabilities and Fund Equity.....	<u>\$ 30,159</u>	<u>\$ 28,505</u>	<u>\$ 14,338</u>	<u>\$ 7,556</u>	<u>\$ 9,791</u>	<u>\$ 495</u>	<u>\$ 23,877</u>	<u>\$ 2,567</u>	<u>\$117,288</u>

**ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY**

For the Fiscal Year Ended June 30, 2000

Exhibit D-2

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Operating Revenues:									
Sales and services.....	\$ —	\$ —	\$ 299	\$ 674	\$ 35	\$ —	\$ —	\$ 179	\$ 1,187
Investment earnings.....	2,011	1,343	—	—	—	—	1,170	—	4,524
Rental and lease earnings.....	—	—	2,961	—	452	4	—	629	4,046
Fees, licenses and fines.....	—	989	4,599	1,481	408	—	—	596	8,073
Insurance premiums.....	5,239	34	—	—	—	—	1,835	—	7,108
Miscellaneous.....	—	—	—	31	—	—	—	—	31
Total operating revenues.....	<u>7,250</u>	<u>2,366</u>	<u>7,859</u>	<u>2,186</u>	<u>895</u>	<u>4</u>	<u>3,005</u>	<u>1,404</u>	<u>24,969</u>
Operating Expenses:									
Personal services.....	580	105	3,116	829	658	—	—	630	5,918
Supplies and materials.....	6	—	368	37	44	—	—	105	560
Services.....	204	9,526	2,556	772	172	—	596	445	14,271
Interest.....	562	456	—	—	—	—	321	—	1,339
Cost of goods sold.....	—	—	—	311	—	—	—	140	451
Depreciation/amortization.....	—	—	569	186	623	9	—	64	1,451
Claims.....	19,582	79,491	11	—	—	—	3,887	1	102,972
Insurance and bonding.....	1,727	—	106	18	34	—	368	35	2,288
Other.....	24	—	804	94	10	—	—	201	1,133
Total operating expenses.....	<u>22,685</u>	<u>89,578</u>	<u>7,530</u>	<u>2,247</u>	<u>1,541</u>	<u>9</u>	<u>5,172</u>	<u>1,621</u>	<u>130,383</u>
Operating income (loss).....	<u>(15,435)</u>	<u>(87,212)</u>	<u>329</u>	<u>(61)</u>	<u>(646)</u>	<u>(5)</u>	<u>(2,167)</u>	<u>(217)</u>	<u>(105,414)</u>
Nonoperating Revenues (Expenses):									
Gain (loss) on sale of equipment.....	—	—	2	2	—	—	—	—	4
Investment earnings.....	—	—	—	276	—	—	—	—	276
Donations.....	—	—	47	2,088	6	—	—	62	2,203
Federal grants.....	—	68,905	—	—	—	—	—	—	68,905
Insurance recoveries.....	—	—	1	—	43	—	—	—	44
Miscellaneous.....	—	—	11	(69)	8	—	—	3	(47)
Total nonoperating revenues (expenses).....	<u>—</u>	<u>68,905</u>	<u>61</u>	<u>2,297</u>	<u>57</u>	<u>—</u>	<u>—</u>	<u>65</u>	<u>71,385</u>
Income (loss) before operating transfers.....	<u>(15,435)</u>	<u>(18,307)</u>	<u>390</u>	<u>2,236</u>	<u>(589)</u>	<u>(5)</u>	<u>(2,167)</u>	<u>(152)</u>	<u>(34,029)</u>
Operating Transfers:									
Transfers in.....	—	20,571	—	—	120	—	—	205	20,896
Transfers out.....	—	—	(585)	(1)	(32)	—	—	—	(618)
Transfers to component units.....	—	(16)	—	—	—	—	—	—	(16)
Total operating transfers in (out)...	<u>—</u>	<u>20,555</u>	<u>(585)</u>	<u>(1)</u>	<u>88</u>	<u>—</u>	<u>—</u>	<u>205</u>	<u>20,262</u>
Net income (loss).....	<u>(15,435)</u>	<u>2,248</u>	<u>(195)</u>	<u>2,235</u>	<u>(501)</u>	<u>(5)</u>	<u>(2,167)</u>	<u>53</u>	<u>(13,767)</u>
Fund equity — July 1.....	30,912	2,558	12,669	5,210	10,225	500	7,134	2,369	71,577
Restatements.....	—	—	—	—	—	—	10	—	10
Increase (decrease) in contributed capital.....	—	—	1,114	—	—	—	4,500	—	5,614
Fund equity — June 30.....	<u>\$ 15,477</u>	<u>\$ 4,806</u>	<u>\$ 13,588</u>	<u>\$ 7,445</u>	<u>\$ 9,724</u>	<u>\$ 495</u>	<u>\$ 9,477</u>	<u>\$ 2,422</u>	<u>\$ 63,434</u>

ENTERPRISE FUNDS COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Cash Provided From (Used For)									
Operations:									
Operating income (loss).....	\$ (15,435)	\$ (87,212)	\$ 329	\$ (61)	\$ (646)	\$ (5)	\$ (2,167)	\$ (217)	\$ (105,414)
Adjustments to reconcile operating income to net cash flows from operating activities:									
Depreciation/amortization.....	—	—	569	186	623	9	—	64	1,451
Investment earnings.....	(2,011)	(1,343)	—	—	—	—	(1,170)	—	(4,524)
Securities lending fees.....	562	456	—	—	—	—	321	—	1,339
Restatements and adjustments to cash.....	—	208	—	—	—	—	10	—	218
Nonoperating miscellaneous income/expense.....	—	—	12	(69)	51	—	—	3	(3)
(Increases) decreases in assets:									
Receivables.....	294	(8,096)	3	5	—	(1)	830	(15)	(6,980)
Inventories.....	—	—	(3)	(13)	3	—	—	(4)	(17)
Prepaid items.....	(63)	—	—	(13)	—	—	—	—	(76)
Increases (decreases) in liabilities:									
Accounts payable and accrued liabilities.....	(38)	421	(47)	(18)	5	—	(10)	11	324
Due to other funds.....	—	—	4	—	—	—	—	—	4
Claims payable.....	4,466	9,763	—	—	—	—	627	—	14,856
Accrued vacation leave.....	(3)	—	8	2	—	—	—	—	7
Deferred revenue.....	72	—	69	—	—	—	—	82	223
Total cash provided from (used for) operations.....	(12,156)	(85,803)	944	19	36	3	(1,559)	(76)	(98,592)
Cash Provided From (Used For)									
Noncapital Financing Activities:									
Federal grants.....	—	68,905	—	—	—	—	—	—	68,905
Operating transfers in.....	—	20,571	—	—	120	—	—	205	20,896
Operating transfers out.....	—	—	(585)	(1)	(32)	—	—	—	(618)
Operating transfers to component units.....	—	(16)	—	—	—	—	—	—	(16)
Increase in contributed capital.....	—	—	—	—	—	—	4,500	—	4,500
Nonoperating cash donations.....	—	—	47	1,200	6	—	—	62	1,315
Total cash provided from (used for) noncapital financing activities.....	—	89,460	(538)	1,199	94	—	4,500	267	94,982

ENTERPRISE FUNDS COMBINING STATEMENT OF CASH FLOWS

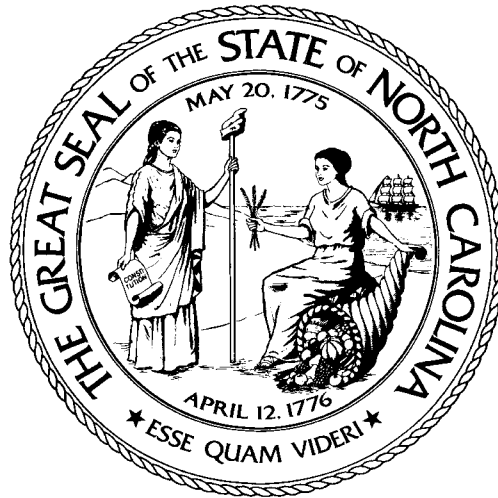
For the Fiscal Year Ended June 30, 2000

Exhibit D-3

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Cash Provided From (Used For)									
Capital Financing Activities:									
Acquisition of fixed assets.....	—	—	(31)	(20)	(14)	—	—	—	(65)
Proceeds from the sale of fixed assets.....	—	—	3	3	—	—	—	—	6
Increase in contributed capital.....	—	—	1	—	—	—	—	—	1
Total cash provided from (used for) capital financing activities.....	—	—	(27)	(17)	(14)	—	—	—	(58)
Cash Provided From (Used For)									
Investment Activities:									
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	2,881	—	—	—	—	2,881
Purchase of non-State Treasurer investments.....	—	—	—	(4,208)	—	—	—	—	(4,208)
Investment earnings.....	918	854	—	126	—	—	453	—	2,351
Total cash provided from (used for) investment activities.....	918	854	—	(1,201)	—	—	453	—	1,024
Net increase (decrease) in cash and cash equivalents.....	(11,238)	4,511	379	—	116	3	3,394	191	(2,644)
Cash and cash equivalents at July 1.....	18,762	8,935	5,086	970	783	32	5,066	518	40,152
Cash and cash equivalents at June 30.....	<u>\$ 7,524</u>	<u>\$ 13,446</u>	<u>\$ 5,465</u>	<u>\$ 970</u>	<u>\$ 899</u>	<u>\$ 35</u>	<u>\$ 8,460</u>	<u>\$ 709</u>	<u>\$ 37,508</u>
Noncash Investing, Capital, and Financing Activities:									
Noncash distributions from the State									
Treasurer Long-Term Investment Portfolio.....	\$ 589	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 380	\$ —	\$ 969
Increase in contributed capital.....	—	—	1,113	—	—	—	—	—	1,113
Assets acquired through the assumption of a liability.....	6,751	6,898	—	—	—	—	6,533	—	20,182

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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:

Workers' Compensation Program

Death Benefit Plan of North Carolina

State Property Fire Insurance Fund

Self-insurance fund for State agencies and certain component units

Central Governmental Services:

Department of Correction:
Prison Enterprises

Department of Administration:
Motor Fleet Management
Courier Service
Temporary Solutions

Department of Commerce:

North Carolina Information Highway
Centralized Computing Services
State Telecommunications
Applications Development Services
Decentralized Computing Services

Other Funds:

Clerk of Supreme Court:
Printing Department

Cherry Hospital:
Auxiliary Services (laundry)

John Umstead Hospital:
Auxiliary Services

Department of Administration:
Administration of State and Federal Surplus Property

**INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

(Dollars in Thousands)

	Workers' Compensation Program	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
ASSETS							
Current Assets:							
Cash and cash equivalents.....	\$ 590	\$ 2,804	\$ 10,463	\$ 22,769	\$ 645	\$ —	\$ 1,309
Investments.....	—	182,026	28,701	—	—	—	—
Securities lending collateral.....	—	33,075	11,265	—	—	—	—
Receivables:							
Accounts receivable.....	642	47	—	3,786	3,053	279	959
Intergovernmental receivables.....	—	—	—	665	—	—	—
Interest receivable.....	—	12	46	—	—	—	—
Premiums receivable.....	—	—	53	—	—	—	—
Contributions receivable.....	—	1,398	—	—	—	—	—
Due from other funds.....	1,412	—	—	5,678	5,028	2	506
Due from component units.....	—	—	—	21	473	—	—
Inventories.....	—	—	—	12,011	156	—	—
Total current assets.....	<u>2,644</u>	<u>219,362</u>	<u>50,528</u>	<u>44,930</u>	<u>9,355</u>	<u>281</u>	<u>2,774</u>
Noncurrent Assets:							
Accounts receivable.....	—	—	—	—	—	—	—
Total noncurrent assets.....	—	—	—	—	—	—	—
Fixed Assets:							
Land.....	—	—	—	875	406	—	—
Buildings.....	—	—	—	24,707	1,162	—	—
Other structures and improvements....	—	—	—	1,896	377	—	—
Machinery and equipment.....	—	—	—	23,850	156,001	47	14
Construction in progress.....	—	—	—	9,803	—	—	—
Accumulated depreciation.....	—	—	—	(21,385)	(53,415)	(44)	(3)
Total fixed assets.....	—	—	—	<u>39,746</u>	<u>104,531</u>	<u>3</u>	<u>11</u>
Total Assets.....	<u>\$ 2,644</u>	<u>\$ 219,362</u>	<u>\$ 50,528</u>	<u>\$ 84,676</u>	<u>\$ 113,886</u>	<u>\$ 284</u>	<u>\$ 2,785</u>
LIABILITIES AND FUND EQUITY							
Liabilities:							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ —	\$ 1	\$ —	\$ 2,538	\$ 2,368	\$ 26	\$ 3
Accrued payroll.....	—	—	—	46	—	26	680
Obligations under securities lending...	—	33,075	11,265	—	—	—	—
Due to other funds.....	—	—	1,239	141	789	224	2
Due to component units.....	—	—	1,290	—	—	—	—
Claims and benefits payable.....	—	1,538	638	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—
Accrued vacation leave.....	—	—	—	1,077	95	55	17
Deferred revenue.....	—	—	2,076	10	—	—	—
Total current liabilities.....	—	<u>34,614</u>	<u>16,508</u>	<u>3,812</u>	<u>3,252</u>	<u>331</u>	<u>702</u>
Total Liabilities.....	—	<u>34,614</u>	<u>16,508</u>	<u>3,812</u>	<u>3,252</u>	<u>331</u>	<u>702</u>
Fund Equity:							
Contributed capital.....	507	—	—	20,313	16,402	—	—
Retained earnings.....	2,137	184,748	34,020	60,551	94,232	(47)	2,083
Total Fund Equity.....	<u>2,644</u>	<u>184,748</u>	<u>34,020</u>	<u>80,864</u>	<u>110,634</u>	<u>(47)</u>	<u>2,083</u>
Total Liabilities and Fund Equity.....	<u>\$ 2,644</u>	<u>\$ 219,362</u>	<u>\$ 50,528</u>	<u>\$ 84,676</u>	<u>\$ 113,886</u>	<u>\$ 284</u>	<u>\$ 2,785</u>

Exhibit E-1

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 8	\$ 31,035	\$ 11,502	\$ 57	\$ —	\$ 364	\$ 328	\$ 2,363	\$3,967	\$ 88,204
—	—	—	—	—	100	—	—	—	210,827
—	—	—	—	—	—	—	—	—	44,340
813	837	9,614	2,235	—	83	22	135	76	22,581
—	—	—	—	—	—	1	—	—	666
—	—	—	—	—	2	—	—	—	60
—	—	—	—	—	—	—	—	—	53
—	—	—	—	—	—	—	—	—	1,398
90	14,975	7,764	446	409	—	—	—	96	36,406
—	1	1,181	—	—	—	—	—	—	1,676
—	207	—	—	—	9	38	326	1	12,748
911	47,055	30,061	2,738	409	558	389	2,824	4,140	418,959
—	1	—	—	—	—	—	—	—	1
—	1	—	—	—	—	—	—	—	1
—	2,861	—	—	—	—	—	—	19	4,161
—	9,013	—	—	—	—	2,349	3,277	263	40,771
—	34	514	—	—	—	—	10,145	44	13,010
501	61,521	22,307	282	—	445	1,521	1,387	408	268,284
—	—	—	—	—	—	—	—	—	9,803
(385)	(42,948)	(17,964)	(282)	—	(159)	(2,700)	(7,269)	(617)	(147,171)
116	30,481	4,857	—	—	286	1,170	7,540	117	188,858
\$ 1,027	\$ 77,537	\$ 34,918	\$ 2,738	\$ 409	\$ 844	\$ 1,559	\$10,364	\$4,257	\$ 607,818
\$ —	\$ 3,191	\$ 907	\$ 728	\$ —	\$ 25	\$ 9	\$ 70	\$1,358	\$ 11,224
—	48	50	1	—	—	—	6	—	857
—	—	—	—	—	—	—	—	—	44,340
2,596	2,740	63	6,163	—	—	—	1	318	14,276
—	—	—	—	—	—	—	—	—	1,290
—	—	—	—	—	—	—	—	—	2,176
—	—	—	—	—	—	—	75	—	75
—	928	392	231	—	4	76	145	74	3,094
—	—	—	—	—	—	—	8	—	2,094
2,596	6,907	1,412	7,123	—	29	85	305	1,750	79,426
2,596	6,907	1,412	7,123	—	29	85	305	1,750	79,426
—	6,279	1,307	15	6	—	3,284	13,331	315	61,759
(1,569)	64,351	32,199	(4,400)	403	815	(1,810)	(3,272)	2,192	466,633
(1,569)	70,630	33,506	(4,385)	409	815	1,474	10,059	2,507	528,392
\$ 1,027	\$ 77,537	\$ 34,918	\$ 2,738	\$ 409	\$ 844	\$ 1,559	\$10,364	\$4,257	\$ 607,818

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

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	Workers' Compensation Program	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Operating Revenues:							
Sales and services.....	\$ 21,459	\$ —	\$ —	\$ 68,107	\$ 37,642	\$1,839	\$ 9,341
Investment earnings.....	—	9,716	2,468	—	—	—	—
Rental and lease earnings.....	—	—	—	—	—	—	—
Fees, licenses and fines.....	—	933	—	—	—	—	—
Contributions.....	—	25,030	—	—	—	—	—
Insurance premiums.....	—	—	14,269	—	—	—	—
Other.....	—	—	—	367	591	1	—
Total operating revenues.....	<u>21,459</u>	<u>35,679</u>	<u>16,737</u>	<u>68,474</u>	<u>38,233</u>	<u>1,840</u>	<u>9,341</u>
Operating Expenses:							
Personal services.....	—	405	1,142	16,543	1,671	1,640	8,891
Supplies and materials.....	—	—	—	3,787	7,175	85	30
Services.....	21,105	212	136	4,234	2,863	702	24
Interest.....	—	1,729	603	—	—	—	—
Cost of goods sold.....	—	—	—	32,818	1,140	—	—
Depreciation.....	—	—	—	2,565	14,906	6	2
Claims and benefits.....	—	23,091	2,924	21	—	—	—
Insurance and bonding.....	—	—	8,109	357	2,350	—	—
Other.....	77	—	71	2,286	5	4	32
Total operating expenses.....	<u>21,182</u>	<u>25,437</u>	<u>12,985</u>	<u>62,611</u>	<u>30,110</u>	<u>2,437</u>	<u>8,979</u>
Operating income (loss).....	<u>277</u>	<u>10,242</u>	<u>3,752</u>	<u>5,863</u>	<u>8,123</u>	<u>(597)</u>	<u>362</u>
Nonoperating Revenues (Expenses):							
Gain (loss) on property and equipment transactions.....	—	—	—	(240)	(643)	—	—
Investment earnings.....	—	—	—	—	—	—	—
Insurance recoveries.....	—	—	100	—	—	—	—
Interest expense.....	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	283	—	—	—
Total nonoperating revenues (expenses).....	<u>—</u>	<u>—</u>	<u>100</u>	<u>43</u>	<u>(643)</u>	<u>—</u>	<u>—</u>
Income (loss) before operating transfers.....	<u>277</u>	<u>10,242</u>	<u>3,852</u>	<u>5,906</u>	<u>7,480</u>	<u>(597)</u>	<u>362</u>
Operating Transfers:							
Transfers in.....	—	—	—	153	—	—	—
Transfers out.....	—	—	—	(1,865)	(1,002)	—	—
Total operating transfers in (out).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,712)</u>	<u>(1,002)</u>	<u>—</u>	<u>—</u>
Net income (loss).....	277	10,242	3,852	4,194	6,478	(597)	362
Fund equity — July 1.....	1,860	174,506	28,869	76,659	104,156	550	1,721
Restatements.....	—	—	1,299	—	—	—	—
Increases (decreases) in contributed capital.....	507	—	—	11	—	—	—
Fund equity — June 30.....	<u>\$ 2,644</u>	<u>\$184,748</u>	<u>\$34,020</u>	<u>\$ 80,864</u>	<u>\$ 110,634</u>	<u>\$ (47)</u>	<u>\$ 2,083</u>

Exhibit E-2

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 6,542	\$60,859	\$71,134	\$ 9,627	\$ —	\$ 479	\$ 1,521	\$ 3,258	\$ 1,460	\$ 293,268
—	—	—	—	—	—	—	—	—	12,184
—	1,434	—	—	—	—	—	—	6	1,440
13	36	37	7	—	—	—	5	—	1,031
—	—	—	—	—	—	—	—	—	25,030
—	—	—	—	—	—	—	—	—	14,269
—	5	276	—	—	7	—	—	117	1,364
<u>6,555</u>	<u>62,334</u>	<u>71,447</u>	<u>9,634</u>	<u>—</u>	<u>486</u>	<u>1,521</u>	<u>3,263</u>	<u>1,583</u>	<u>348,586</u>
998	10,846	8,789	4,442	—	173	1,065	1,644	919	59,168
12	966	130	31	—	60	118	288	109	12,791
6,043	12,710	46,834	8,364	—	39	280	470	475	104,491
—	—	—	—	—	—	—	—	—	2,332
—	754	—	415	—	—	—	—	—	35,127
187	11,742	2,425	—	—	76	91	624	35	32,659
—	1	—	—	—	—	—	—	—	26,037
2	127	40	1	—	4	1	6	16	11,013
<u>2,677</u>	<u>25,815</u>	<u>12,883</u>	<u>616</u>	<u>—</u>	<u>52</u>	<u>6</u>	<u>236</u>	<u>5</u>	<u>44,765</u>
<u>9,919</u>	<u>62,961</u>	<u>71,101</u>	<u>13,869</u>	<u>—</u>	<u>404</u>	<u>1,561</u>	<u>3,268</u>	<u>1,559</u>	<u>328,383</u>
<u>(3,364)</u>	<u>(627)</u>	<u>346</u>	<u>(4,235)</u>	<u>—</u>	<u>82</u>	<u>(40)</u>	<u>(5)</u>	<u>24</u>	<u>20,203</u>
(172)	(1,829)	(14)	—	(233)	—	—	—	2	(3,129)
—	—	—	—	—	20	—	—	—	20
—	10	3	—	—	—	—	—	—	113
—	—	—	—	—	—	—	—	—	—
—	2	1	—	—	—	44	29	—	359
<u>(172)</u>	<u>(1,817)</u>	<u>(10)</u>	<u>—</u>	<u>(233)</u>	<u>20</u>	<u>44</u>	<u>29</u>	<u>2</u>	<u>(2,637)</u>
<u>(3,536)</u>	<u>(2,444)</u>	<u>336</u>	<u>(4,235)</u>	<u>(233)</u>	<u>102</u>	<u>4</u>	<u>24</u>	<u>26</u>	<u>17,566</u>
—	2,264	—	—	—	—	—	—	—	2,417
—	(37)	(3)	(2)	(2,264)	—	—	(8)	(20)	(5,201)
—	2,227	(3)	(2)	(2,264)	—	—	(8)	(20)	(2,784)
(3,536)	(217)	333	(4,237)	(2,497)	102	4	16	6	14,782
1,967	70,353	33,173	(148)	2,901	752	1,470	9,050	2,501	510,340
—	—	—	—	5	(39)	—	—	—	1,265
—	494	—	—	—	—	—	993	—	2,005
<u>\$ (1,569)</u>	<u>\$70,630</u>	<u>\$33,506</u>	<u>\$ (4,385)</u>	<u>\$ 409</u>	<u>\$ 815</u>	<u>\$ 1,474</u>	<u>\$10,059</u>	<u>\$ 2,507</u>	<u>\$ 528,392</u>

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	Workers' Compensation Program	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Provided From (Used For)							
Operations:							
Operating income (loss).....	\$ 277	\$ 10,242	\$ 3,752	\$ 5,863	\$ 8,123	\$ (597)	\$ 362
Adjustments to reconcile operating income to net cash flows from operating activities:							
Depreciation.....	—	—	—	2,565	14,906	6	2
Investment earnings.....	—	(9,716)	(2,468)	—	—	—	—
Securities lending fees.....	—	1,729	603	—	—	—	—
Restatements and adjustments to cash.....	—	—	1,299	—	—	—	—
Nonoperating miscellaneous income.....	—	—	100	283	—	—	—
(Increases) decreases in assets:							
Receivables.....	(215)	(84)	(38)	497	(1,481)	(78)	(230)
Due from other funds.....	(355)	—	—	1,150	(637)	(2)	(487)
Due from component units.....	—	—	—	(14)	(20)	—	—
Inventories.....	—	—	—	110	(7)	—	—
Prepaid items.....	—	—	—	—	—	—	—
Increases (decreases) in liabilities:							
Accounts payable and accrued liabilities.....	—	(3)	—	514	1,584	12	261
Due to other funds.....	—	—	(1,417)	63	418	171	1
Due to component units.....	—	—	1,106	—	—	—	—
Claims and benefits payable.....	—	(275)	120	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—
Accrued vacation leave.....	—	—	—	49	18	1	2
Deferred revenue.....	—	—	(532)	(319)	—	—	—
Total cash provided from (used for) operations.....	(293)	1,893	2,525	10,761	22,904	(487)	(89)
Cash Provided From (Used For)							
Noncapital Financing Activities:							
Operating transfers in.....	—	—	—	153	—	—	—
Operating transfers out.....	—	—	—	(1,865)	(1,002)	—	—
Increase in contributed capital.....	507	—	—	—	—	—	—
Decrease in contributed capital.....	—	—	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	507	—	—	(1,712)	(1,002)	—	—
Cash Provided From (Used For)							
Capital Financing Activities:							
Acquisition of fixed assets.....	—	—	—	(4,480)	(28,796)	—	(7)
Proceeds from the sale of fixed assets.....	—	—	—	31	1,868	—	—
Insurance recoveries.....	—	—	—	—	—	—	—
Total cash provided from (used for) capital financing activities.....	—	—	—	(4,449)	(26,928)	—	(7)

Exhibit E-3

N. C. Information Highway	Centralized Computing Services	State Telecommunications Services	Applications Development Services	Decentralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ (3,364)	\$ (627)	\$ 346	\$ (4,235)	\$ —	\$ 82	\$ (40)	\$ (5)	\$ 24	\$ 20,203
187	11,742	2,425	—	—	76	91	624	35	32,659
—	—	—	—	—	—	—	—	—	(12,184)
—	—	—	—	—	—	—	—	—	2,332
—	—	—	—	—	(39)	—	—	—	1,260
—	2	1	—	—	—	44	29	—	459
723	2,661	(2,753)	(594)	—	(75)	141	95	(37)	(1,468)
321	(5,345)	(4,185)	(89)	1,322	—	—	—	(96)	(8,403)
—	64	(268)	—	—	—	—	—	—	(238)
—	(82)	—	—	—	41	(2)	(176)	—	(116)
—	839	29	14	—	—	—	—	—	882
(11)	437	(713)	208	—	14	(3)	8	16	2,324
2,227	1,206	54	4,759	—	—	—	1	167	7,650
—	—	—	—	—	—	—	—	—	1,106
—	—	—	—	—	—	—	—	—	(155)
—	—	—	—	—	—	—	5	—	5
(53)	180	88	(37)	—	1	4	7	3	263
—	—	—	—	—	—	—	7	—	(844)
30	11,077	(4,976)	26	1,322	100	235	595	112	45,735
—	2,264	—	—	—	—	—	—	—	2,417
—	(37)	(3)	(2)	(2,264)	—	—	(8)	(20)	(5,201)
—	—	—	—	—	—	—	—	—	507
—	(5)	—	—	—	—	—	—	—	(5)
—	2,222	(3)	(2)	(2,264)	—	—	(8)	(20)	(2,282)
(71)	(8,708)	(1,361)	—	—	(36)	(56)	(14)	(8)	(43,537)
—	—	—	—	—	—	—	—	2	1,901
—	10	3	—	—	—	—	—	—	13
(71)	(8,698)	(1,358)	—	—	(36)	(56)	(14)	(6)	(41,623)

Continued

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (continued)

For the Fiscal Year Ended June 30, 2000

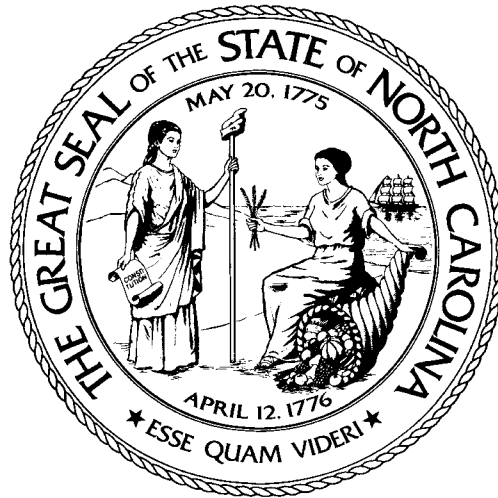
(Dollars in Thousands)

	Workers' Compensation Program	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Provided From (Used For)							
Investment Activities:							
Purchase into State Treasurer							
Long-Term Investment Portfolio.....	—	(3,500)	—	—	—	—	—
Investment earnings.....	—	183	619	—	—	—	—
Total cash provided from (used for) investment activities.....	—	(3,317)	619	—	—	—	—
Net increase (decrease) in cash and cash equivalents.....	214	(1,424)	3,144	4,600	(5,026)	(487)	(96)
Cash and cash equivalents at July 1.....	376	4,228	7,319	18,169	5,671	487	1,405
Cash and cash equivalents at June 30.....	\$ 590	\$ 2,804	\$ 10,463	\$ 22,769	\$ 645	\$ —	\$ 1,309
Noncash Investing, Capital, and Financing Activities:							
Noncash distributions from the State							
Treasurer Long-Term							
Investment Portfolio.....	\$ —	\$ 7,810	\$ 1,235	\$ —	\$ —	\$ —	\$ —
Increase in contributed capital.....	—	—	—	11	—	—	—
Assets acquired through the assumption of a liability.....	—	33,075	11,265	—	—	—	—
Transfer of fixed assets	—	—	—	—	—	—	—

Exhibit E-3

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Supreme Court Printing Department	Cherry Hospital Auxiliary Services	Umstead Hospital Auxiliary Services	Surplus Property	Totals
—	—	—	—	—	—	—	—	—	(3,500)
—	—	—	—	—	19	—	—	—	821
—	—	—	—	—	19	—	—	—	(2,679)
(41)	4,601	(6,337)	24	(942)	83	179	573	86	(849)
49	26,434	17,839	33	942	281	149	1,790	3,881	89,053
<u>\$ 8</u>	<u>\$ 31,035</u>	<u>\$ 11,502</u>	<u>\$ 57</u>	<u>\$ —</u>	<u>\$ 364</u>	<u>\$ 328</u>	<u>\$ 2,363</u>	<u>\$ 3,967</u>	<u>\$ 88,204</u>

\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,045
—	499	—	—	—	—	—	993	—	1,503
—	—	—	—	—	—	—	—	—	44,340
(172)	—	—	—	(228)	—	—	—	—	(400)



TRUST AND AGENCY FUNDS

The trust and agency funds are maintained to account for assets held by the State in the capacity of a trustee or agent. These funds include expendable trusts, nonexpendable trusts, pension trusts, investment trusts and agency funds.

The following activities are included in the trust and agency funds:

Expendable Trusts

Expendable trust funds consist of various trust funds administered by the State, including significant funds for unemployment compensation, the Escheat Fund, the Employee Deferred Compensation Plan, the Recreation and Natural Heritage Trust Fund, and numerous departmental trusts. These funds are accounted for using the modified accrual basis of accounting.

Nonexpendable Trusts

Nonexpendable trust funds consist of various trust funds that are administered by the State and primarily relate to educational loan programs, the Wildlife Endowment Program and the Clean Water Revolving Loan and Grant Fund.

These funds are accounted for using the accrual basis of accounting.

Pension Trusts

The pension trust funds reflect the activities of the six retirement systems administered by the State, and the 401(k) Supplemental Retirement Income Fund. These funds are accounted for using the accrual basis of accounting.

Investment Trust Fund

The investment trust fund accounts for the external portion of the Investment Pool sponsored by the State Treasurer. The external portion is comprised primarily of balances from local education agencies.

Agency Funds

Agency funds consist of numerous departmental funds for which the State acts solely in a custodial capacity. The State retains no equity in these funds, and assets equal liabilities. These funds are accounted for using the modified accrual basis of accounting.

TRUST AND AGENCY FUNDS COMBINING BALANCE SHEET

June 30, 2000

Exhibit F-1

(Dollars in Thousands)

	Expendable Trust Funds	Non- expendable Trust Funds	Pension Trust Funds	Investment Trust Fund	Agency Funds	Totals
ASSETS						
Cash and cash equivalents.....	\$ 277,972	\$ 146,750	\$ 296,109	\$ 75,824	\$ 709,004	\$ 1,505,659
Investments.....	908,606	42,830	60,856,837	1,098,379	67,923	62,974,575
Securities lending collateral.....	198,678	86,488	4,179,522	692,892	10,145	5,167,725
Deposit with Federal government.....	1,240,079	—	—	—	—	1,240,079
Receivables:						
Taxes receivable.....	117,427	—	—	—	118,277	235,704
Accounts receivable.....	16,283	4	899	—	2,191	19,377
Intergovernmental receivables.....	1,304	35	—	—	3,258	4,597
Interest receivable.....	1,402	2,227	1,132	16,977	5	21,743
Contributions receivable.....	1,676	—	143,142	—	—	144,818
Due from other funds.....	678	—	—	—	7,631	8,309
Due from component units.....	1,223	—	—	—	—	1,223
Advance to component units.....	25,000	—	—	—	—	25,000
Notes receivable.....	—	308,166	98,829	—	—	406,995
Inventories.....	1,371	—	—	—	301	1,672
Sureties.....	—	—	—	—	507,139	507,139
Total Assets.....	<u>\$ 2,791,699</u>	<u>\$ 586,500</u>	<u>\$ 65,576,470</u>	<u>\$ 1,884,072</u>	<u>\$ 1,425,874</u>	<u>\$ 72,264,615</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 5,819	\$ 32	\$ —	\$ —	\$ 364	\$ 6,215
Accrued payroll.....	75	—	—	—	—	75
Intergovernmental payables.....	899	34	—	—	630,145	631,078
Obligations under securities lending.....	198,678	86,488	4,179,522	692,892	10,145	5,167,725
Refunds and other payables.....	—	—	3,203	—	—	3,203
Due to other funds.....	204	3	1	—	14,549	14,757
Due to component units.....	14,455	—	—	—	—	14,455
Claims and benefits payable.....	31,002	—	43,719	—	11,159	85,880
Deposits payable.....	14	—	—	—	759,512	759,526
Distributions payable.....	—	—	—	5,473	—	5,473
Deferred revenue.....	11,592	—	—	—	—	11,592
Total Liabilities.....	<u>262,738</u>	<u>86,557</u>	<u>4,226,445</u>	<u>698,365</u>	<u>1,425,874</u>	<u>6,699,979</u>
Fund Balances:						
Reserved for:						
Inventories.....	1,371	—	—	—	—	1,371
Advances to component units.....	25,000	—	—	—	—	25,000
Claims and benefits.....	667,370	—	—	—	—	667,370
Notes receivable.....	—	308,150	—	—	—	308,150
Loan and grant commitments.....	17,430	219,784	—	—	—	237,214
Abandoned property.....	224,577	—	—	—	—	224,577
Wildlife endowment.....	—	41,830	—	—	—	41,830
Employees' pension benefits.....	—	—	61,350,025	—	—	61,350,025
Energy conservation.....	1,699	—	—	—	—	1,699
Investment pool participants.....	—	—	—	1,185,707	—	1,185,707
Other purposes.....	666	18	—	—	—	684
Unreserved:						
Undesignated.....	1,590,848	(69,839)	—	—	—	1,521,009
Total Fund Balances.....	<u>2,528,961</u>	<u>499,943</u>	<u>61,350,025</u>	<u>1,185,707</u>	<u>—</u>	<u>65,564,636</u>
Total Liabilities and Fund Balances.....	<u>\$ 2,791,699</u>	<u>\$ 586,500</u>	<u>\$ 65,576,470</u>	<u>\$ 1,884,072</u>	<u>\$ 1,425,874</u>	<u>\$ 72,264,615</u>

**EXPENDABLE TRUST FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

Exhibit F-2

(Dollars in Thousands)

	Unemployment Compensation Funds	Escheat Fund	Deferred Compensation Plan	Recreation and Natural Heritage Trust Fund	Other Funds	Totals
ASSETS						
Cash and cash equivalents.....	\$ 213,235	\$ 20,469	\$ 264	\$ 19,662	\$ 24,342	\$ 277,972
Investments.....	—	240,316	656,050	—	12,240	908,606
Securities lending collateral.....	124,560	51,265	—	11,490	11,363	198,678
Deposit with Federal government...	1,240,079	—	—	—	—	1,240,079
Receivables:						
Taxes receivable.....	117,427	—	—	—	—	117,427
Accounts receivable.....	15,413	—	394	—	476	16,283
Intergovernmental receivables....	1,304	—	—	—	—	1,304
Interest receivable.....	1,039	100	—	184	79	1,402
Contributions receivable.....	—	—	1,554	—	122	1,676
Due from other funds.....	—	—	—	255	423	678
Due from component units.....	—	1,223	—	—	—	1,223
Advance to component units.....	—	25,000	—	—	—	25,000
Inventories.....	—	—	—	—	1,371	1,371
Total Assets.....	<u>\$ 1,713,057</u>	<u>\$ 338,373</u>	<u>\$ 658,262</u>	<u>\$ 31,591</u>	<u>\$ 50,416</u>	<u>\$ 2,791,699</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 4,668	\$ —	\$ 667	\$ 6	\$ 478	\$ 5,819
Accrued payroll.....	—	—	—	—	75	75
Intergovernmental payables.....	555	—	—	—	344	899
Obligations under securities lending.....	124,560	51,265	—	11,490	11,363	198,678
Due to other funds.....	85	—	—	—	119	204
Due to component units.....	—	14,455	—	—	—	14,455
Claims and benefits payable.....	11,570	19,432	—	—	—	31,002
Deposits payable.....	—	—	—	—	14	14
Deferred revenue.....	7,723	3,644	—	—	225	11,592
Total Liabilities.....	<u>149,161</u>	<u>88,796</u>	<u>667</u>	<u>11,496</u>	<u>12,618</u>	<u>262,738</u>
Fund Balances:						
Reserved for:						
Inventories.....	—	—	—	—	1,371	1,371
Advances to component units....	—	25,000	—	—	—	25,000
Claims and benefits.....	—	—	657,595	—	9,775	667,370
Abandoned property.....	—	224,577	—	—	—	224,577
Energy conservation.....	—	—	—	—	1,699	1,699
Loan and grant commitments.....	—	—	—	17,430	—	17,430
Other purposes.....	—	—	—	—	666	666
Unreserved:						
Undesignated.....	1,563,896	—	—	2,665	24,287	1,590,848
Total Fund Balances.....	<u>1,563,896</u>	<u>249,577</u>	<u>657,595</u>	<u>20,095</u>	<u>37,798</u>	<u>2,528,961</u>
Total Liabilities and Fund Balances.....	<u>\$ 1,713,057</u>	<u>\$ 338,373</u>	<u>\$ 658,262</u>	<u>\$ 31,591</u>	<u>\$ 50,416</u>	<u>\$ 2,791,699</u>

**EXPENDABLE TRUST FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

For the Fiscal Year Ended June 30, 2000

Exhibit F-3

(Dollars in Thousands)

	Unemployment Compensation Funds	Escheat Fund	Deferred Compensation Plan	Recreation and Natural Heritage Trust Fund	Other Funds	Totals
Revenues:						
Taxes.....	\$ 345,323	\$ —	\$ —	\$ 8,599	\$ 343	\$ 354,265
Federal funds.....	10,790	—	—	—	—	10,790
Local funds.....	—	—	—	—	90	90
Investment earnings.....	102,059	14,046	98,686	3,005	2,336	220,132
Sales and services.....	—	—	—	—	32,421	32,421
Sale, rental and lease of property.....	—	—	—	—	452	452
Fees, licenses and fines.....	—	—	575	2,237	4,671	7,483
Contributions.....	1,069	—	27,889	—	2,155	31,113
Funds escheated.....	—	25,656	—	—	—	25,656
Miscellaneous.....	—	—	—	—	404	404
Total revenues.....	<u>459,241</u>	<u>39,702</u>	<u>127,150</u>	<u>13,841</u>	<u>42,872</u>	<u>682,806</u>
Expenditures:						
Current:						
General government.....	—	5,476	2,118	—	561	8,155
Education.....	—	—	—	—	21,337	21,337
Health and human services.....	—	—	—	—	2,404	2,404
Environment and natural resources.....	—	—	—	7,667	363	8,030
Public safety and corrections.....	—	—	—	—	30,339	30,339
Agriculture.....	—	—	—	—	4,778	4,778
Claims and benefits.....	469,354	—	28,736	—	1,696	499,786
Total expenditures.....	<u>469,354</u>	<u>5,476</u>	<u>30,854</u>	<u>7,667</u>	<u>61,478</u>	<u>574,829</u>
Excess revenues over expenditures.....	<u>(10,113)</u>	<u>34,226</u>	<u>96,296</u>	<u>6,174</u>	<u>(18,606)</u>	<u>107,977</u>
Other Financing Sources (Uses):						
Operating transfers in.....	336	—	—	—	23,202	23,538
Operating transfers out.....	(35,406)	—	—	(131)	(2,269)	(37,806)
Operating transfers to component units.....	—	(14,455)	—	—	—	(14,455)
Total other financing sources (uses).....	<u>(35,070)</u>	<u>(14,455)</u>	<u>—</u>	<u>(131)</u>	<u>20,933</u>	<u>(28,723)</u>
Excess of revenues and other expenditures and other uses.....						
	(45,183)	19,771	96,296	6,043	2,327	79,254
Fund balances—July 1.....	1,609,079	229,806	561,299	14,052	35,902	2,450,138
Restatements.....	—	—	—	—	(9)	(9)
Residual equity transfers out.....	—	—	—	—	(547)	(547)
Increase (decrease) in reserve for inventories.....	—	—	—	—	125	125
Fund balances—June 30.....	<u>\$ 1,563,896</u>	<u>\$249,577</u>	<u>\$ 657,595</u>	<u>\$ 20,095</u>	<u>\$37,798</u>	<u>\$2,528,961</u>

**NONEXPENDABLE TRUST FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

Exhibit F-4

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	<i>Totals</i>
ASSETS						
Cash and cash equivalents.....	\$ 1,107	\$ 80	\$ 122	\$ 140,786	\$ 4,655	\$ 146,750
Investments.....	—	1,122	41,708	—	—	42,830
Securities lending collateral.....	645	142	7,307	76,257	2,137	86,488
Receivables:						
Accounts receivable.....	—	—	—	—	4	4
Intergovernmental receivable.....	—	—	—	35	—	35
Interest receivable.....	16	—	1	2,193	17	2,227
Notes receivable.....	514	15	—	305,944	1,693	308,166
Total Assets.....	<u>\$ 2,282</u>	<u>\$ 1,359</u>	<u>\$ 49,138</u>	<u>\$ 525,215</u>	<u>\$ 8,506</u>	<u>\$ 586,500</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ —	\$ —	\$ —	\$ 32	\$ —	\$ 32
Intergovernmental payables.....	—	—	—	34	—	34
Obligations under securities lending.....	645	142	7,307	76,257	2,137	86,488
Due to other funds.....	—	—	1	2	—	3
Total Liabilities.....	<u>645</u>	<u>142</u>	<u>7,308</u>	<u>76,325</u>	<u>2,137</u>	<u>86,557</u>
Fund Balances:						
Reserved for:						
Notes receivable.....	514	—	—	305,943	1,693	308,150
Loan and grant commitments.....	—	1,217	—	218,434	133	219,784
Wildlife endowment.....	—	—	41,830	—	—	41,830
Other reserves.....	—	—	—	—	18	18
Unreserved:						
Undesignated.....	1,123	—	—	(75,487)	4,525	(69,839)
Total Fund Balances.....	<u>1,637</u>	<u>1,217</u>	<u>41,830</u>	<u>448,890</u>	<u>6,369</u>	<u>499,943</u>
Total Liabilities and Fund Balances.....	<u>\$ 2,282</u>	<u>\$ 1,359</u>	<u>\$ 49,138</u>	<u>\$ 525,215</u>	<u>\$ 8,506</u>	<u>\$ 586,500</u>

**NONEXPENDABLE TRUST FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES**

For the Fiscal Year Ended June 30, 2000

Exhibit F-5

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
Operating Revenues:						
Sales and services.....	\$ —	\$ —	\$ 84	\$ 1,844	\$ —	\$ 1,928
Federal funds.....	—	—	—	38,910	240	39,150
Investment earnings.....	113	59	2,235	11,258	342	14,007
Interest earnings on loans.....	32	—	—	8,701	171	8,904
Fees, licenses and fines.....	—	—	1,680	—	17	1,697
Contributions.....	—	8	29	—	—	37
Miscellaneous.....	—	—	—	—	1,124	1,124
Total operating revenues.....	<u>145</u>	<u>67</u>	<u>4,028</u>	<u>60,713</u>	<u>1,894</u>	<u>66,847</u>
Operating Expenses:						
Personal services.....	—	—	—	2,460	—	2,460
Supplies and materials.....	—	—	—	18	—	18
Services.....	—	8	—	645	—	653
Interest.....	40	15	398	3,820	114	4,387
Grants to local governments.....	—	—	—	8,585	—	8,585
Other expenses:						
Scholarships.....	—	52	—	—	—	52
Fixed charges.....	—	—	—	17	—	17
Capital outlay.....	—	—	—	185	—	185
Other.....	—	—	—	181	6	187
Total operating expenses.....	<u>40</u>	<u>75</u>	<u>398</u>	<u>15,911</u>	<u>120</u>	<u>16,544</u>
Operating income (loss).....	<u>105</u>	<u>(8)</u>	<u>3,630</u>	<u>44,802</u>	<u>1,774</u>	<u>50,303</u>
Operating Transfers:						
Transfers in.....	—	—	—	8,480	60	8,540
Transfers out.....	—	—	(3,160)	(2,728)	(2,773)	(8,661)
Total operating transfers in (out).....	<u>—</u>	<u>—</u>	<u>(3,160)</u>	<u>5,752</u>	<u>(2,713)</u>	<u>(121)</u>
Net income (loss).....	105	(8)	470	50,554	(939)	50,182
Fund balances — July 1.....	4,032	5,225	41,360	398,336	7,308	456,261
Residual equity transfers out.....	(2,500)	(4,000)	—	—	—	(6,500)
Fund balances — June 30.....	<u>\$ 1,637</u>	<u>\$ 1,217</u>	<u>\$ 41,830</u>	<u>\$ 448,890</u>	<u>\$ 6,369</u>	<u>\$ 499,943</u>

NONEXPENDABLE TRUST FUNDS COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2000

Exhibit F-6

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
Cash Provided From (Used For) Operations:						
Operating income (loss).....	\$ 105	\$ (8)	\$ 3,630	\$ 44,802	\$ 1,774	\$ 50,303
Adjustments to reconcile operating income to net cash flows from operating activities:						
Investment earnings.....	(113)	(59)	(2,235)	(11,258)	(342)	(14,007)
Securities lending fees.....	40	15	398	3,820	114	4,387
Mortgage/loan/note principal repayments.....	243	—	—	19,341	—	19,584
Mortgages/loans/notes issued.....	(30)	—	—	(63,632)	(1,587)	(65,249)
(Increases) decreases in assets:						
Receivables.....	8	—	—	(294)	1	(285)
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities.....	—	—	—	(57)	—	(57)
Due to other funds.....	—	—	—	1	—	1
Total cash provided from (used for) operations.....	<u>253</u>	<u>(52)</u>	<u>1,793</u>	<u>(7,277)</u>	<u>(40)</u>	<u>(5,323)</u>
Cash Provided From (Used For) Noncapital Financing Activities:						
Operating transfers in.....	—	—	—	8,480	60	8,540
Operating transfers out.....	—	—	(3,160)	(2,728)	(2,773)	(8,661)
Residual equity transfer out.....	(2,500)	(4,000)	—	—	—	(6,500)
Total cash provided from (used for) noncapital financing activities.....	<u>(2,500)</u>	<u>(4,000)</u>	<u>(3,160)</u>	<u>5,752</u>	<u>(2,713)</u>	<u>(6,621)</u>
Cash Provided From (Used For) Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	57	—	—	—	57
Redemptions from the State Treasurer Long-Term Investment Portfolio.....	—	4,000	3,160	—	—	7,160
Purchase of non-State Treasurer investments.....	—	(49)	—	—	—	(49)
Purchase into State Treasurer Long-Term Investment Portfolio.....	—	—	(1,795)	—	—	(1,795)
Investment earnings.....	84	59	13	7,440	234	7,830
Total cash provided from (used for) investment activities.....	<u>84</u>	<u>4,067</u>	<u>1,378</u>	<u>7,440</u>	<u>234</u>	<u>13,203</u>
Net increase (decrease) in cash and cash equivalents.....	(2,163)	15	11	5,915	(2,519)	1,259
Cash and cash equivalents at July 1.....	<u>3,270</u>	<u>65</u>	<u>111</u>	<u>134,871</u>	<u>7,174</u>	<u>145,491</u>
Cash and cash equivalents at June 30.....	<u>\$ 1,107</u>	<u>\$ 80</u>	<u>\$ 122</u>	<u>\$ 140,786</u>	<u>\$ 4,655</u>	<u>\$ 146,750</u>
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions (loss) from the State Treasurer Long-Term Investment Portfolio.....	\$ —	\$ (152)	\$ 1,814	\$ —	\$ —	\$ 1,662
Assets acquired through the assumption of a liability.....	645	142	7,307	76,257	2,137	86,488

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AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	<u>Balance,</u> <u>July 1, 1999</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance,</u> <u>June 30, 2000</u>
Local Sales Tax Collections				
ASSETS				
Cash and cash equivalents.....	\$ 414,326	\$ 2,104,494	\$ 2,076,275	\$ 442,545
Receivables:				
Taxes receivable.....	113,016	5,261	—	118,277
Due from other funds.....	6,554	759	—	7,313
Total Assets.....	<u>\$ 533,896</u>	<u>\$ 2,110,514</u>	<u>\$ 2,076,275</u>	<u>\$ 568,135</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 533,896	\$ 1,674,523	\$ 1,640,284	\$ 568,135
Total Liabilities.....	<u>\$ 533,896</u>	<u>\$ 1,674,523</u>	<u>\$ 1,640,284</u>	<u>\$ 568,135</u>
Deposits of Insurance Carriers Fund				
ASSETS				
Cash and cash equivalents.....	\$ 66	\$ 107	\$ 95	\$ 78
Securities lending collateral.....	37	9	—	46
Receivables:				
Sureties.....	474,381	14,874	9,825	479,430
Total Assets.....	<u>\$ 474,484</u>	<u>\$ 14,990</u>	<u>\$ 9,920</u>	<u>\$ 479,554</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Obligations under securities lending.....	\$ 37	\$ 9	\$ —	\$ 46
Deposits payable.....	474,447	14,944	9,883	479,508
Total Liabilities.....	<u>\$ 474,484</u>	<u>\$ 14,953</u>	<u>\$ 9,883</u>	<u>\$ 479,554</u>
Clerks of Court				
ASSETS				
Cash and cash equivalents.....	\$ 161,656	\$ 997,933	\$ 982,944	\$ 176,645
Investments.....	69,835	30,184	32,606	67,413
Receivables:				
Accounts receivable.....	493	1,292	1,192	593
Due from other funds.....	325	4,520	4,546	299
Sureties.....	24,381	23,146	20,714	26,813
Total Assets.....	<u>\$ 256,690</u>	<u>\$ 1,057,075</u>	<u>\$ 1,042,002</u>	<u>\$ 271,763</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 4,975	\$ 97,601	\$ 96,903	\$ 5,673
Due to other funds.....	2,486	159,646	157,936	4,196
Deposits payable.....	249,229	599,744	587,079	261,894
Total Liabilities.....	<u>\$ 256,690</u>	<u>\$ 856,991</u>	<u>\$ 841,918</u>	<u>\$ 271,763</u>

	<u>Balance, July 1, 1999</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2000</u>
Departmental Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 93,278	\$ 4,292,297	\$ 4,295,839	\$ 89,736
Investments.....	538	47	75	510
Securities lending collateral.....	11,799	—	1,700	10,099
Receivables:				
Accounts receivable.....	2,109	93,859	94,370	1,598
Intergovernmental receivables.....	—	3,258	—	3,258
Interest receivable.....	5	1	1	5
Due from other funds.....	50	63	94	19
Inventories.....	301	—	—	301
Sureties.....	1,051	—	155	896
Total Assets.....	<u>\$ 109,131</u>	<u>\$ 4,389,525</u>	<u>\$ 4,392,234</u>	<u>\$ 106,422</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 3,202	\$ 66,860	\$ 69,698	\$ 364
Intergovernmental payables.....	49,845	733,601	727,109	56,337
Obligations under securities lending.....	11,799	—	1,700	10,099
Due to other funds.....	11,147	699,315	700,109	10,353
Claims and benefits payable.....	16,052	—	4,893	11,159
Deposits payable.....	17,086	30,124	29,100	18,110
Total Liabilities.....	<u>\$ 109,131</u>	<u>\$ 1,529,900</u>	<u>\$ 1,532,609</u>	<u>\$ 106,422</u>
Total Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 669,326	\$ 7,394,831	\$ 7,355,153	\$ 709,004
Investments.....	70,373	30,231	32,681	67,923
Securities lending collateral.....	11,836	9	1,700	10,145
Receivables:				
Taxes receivable.....	113,016	5,261	—	118,277
Accounts receivable.....	2,602	95,151	95,562	2,191
Intergovernmental receivables.....	—	3,258	—	3,258
Interest receivable.....	5	1	1	5
Due from other funds.....	6,929	5,342	4,640	7,631
Due from component units.....	—	—	—	—
Inventories.....	301	—	—	301
Sureties.....	499,813	38,020	30,694	507,139
Total Assets.....	<u>\$ 1,374,201</u>	<u>\$ 7,572,104</u>	<u>\$ 7,520,431</u>	<u>\$ 1,425,874</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 3,202	\$ 66,860	\$ 69,698	\$ 364
Intergovernmental payables.....	588,716	2,505,725	2,464,296	630,145
Obligations under securities lending.....	11,836	9	1,700	10,145
Due to other funds.....	13,633	858,961	858,045	14,549
Claims and benefits payable.....	16,052	—	4,893	11,159
Deposits payable.....	740,762	644,812	626,062	759,512
Total Liabilities.....	<u>\$ 1,374,201</u>	<u>\$ 4,076,367</u>	<u>\$ 4,024,694</u>	<u>\$ 1,425,874</u>

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GENERAL FIXED ASSETS ACCOUNT GROUP

The general fixed assets account group is maintained to account for fixed assets acquired for general governmental purposes except for those assets accounted for in proprietary funds.

General fixed assets purchased by the State are valued at cost where historic records are available; otherwise, they are valued at estimated historic cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received by the State.

Infrastructure, which includes highways, bridges and rights-of-way, is not capitalized. Depreciation expense is not recognized in the general fixed assets account group.

**SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION**

June 30, 2000

Exhibit G-1

(Dollars in Thousands)

	<u>Land</u>	<u>Buildings</u>	<u>Other Structures and Improvements</u>	<u>Machinery and Equipment</u>	<u>Art, Literature and Artifacts</u>	<u>Construction in Progress</u>	<u>Totals</u>
BY FUNCTION							
General government.....	\$ 54,810	\$ 254,423	\$ 27,576	\$ 40,559	\$ 43,107	\$ 25,051	\$ 445,526
Education.....	1,348	50,987	70	10,150	1,013	13,384	76,952
Health and human services.....	3,182	296,580	43,124	97,555	1,440	73,191	515,072
Economic development.....	705	23,356	50	11,666	—	—	35,777
Environment and natural resources.....	196,394	103,252	21,363	101,735	153	35,657	458,554
Public safety, corrections, and regulation.....	22,236	836,680	57,753	256,847	1,521	31,821	1,206,858
Transportation.....	20,925	134,216	—	602,180	—	9,525	766,846
Agriculture.....	22,133	58,860	758	27,325	133	35,686	144,895
Total general fixed assets.....	<u>\$ 321,733</u>	<u>\$ 1,758,354</u>	<u>\$ 150,694</u>	<u>\$ 1,148,017</u>	<u>\$ 47,367</u>	<u>\$ 224,315</u>	<u>\$ 3,650,480</u>

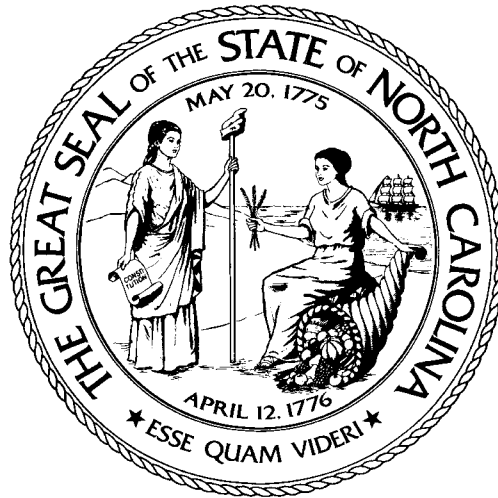
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 2000

Exhibit G-2

(Dollars in Thousands)

	Balance July 1, 1999	Prior Year Adjustments	Transfers (To) From Other Funds	Additions	Deletions	Balance June 30, 2000
BY FUNCTION						
General government.....	\$ 441,566	\$ 13,039	\$ (55,876)	\$ 48,263	\$ 1,466	\$ 445,526
Education.....	74,907	(400)	—	2,896	451	76,952
Health and human services	468,013	8,452	(561)	42,172	3,004	515,072
Economic development.....	36,678	(1,100)	(29)	235	7	35,777
Environment and natural resources.....	414,350	(48)	(62)	47,507	3,193	458,554
Public safety, corrections, and regulation.....	1,084,409	(4,069)	56,544	94,758	24,784	1,206,858
Transportation.....	738,041	(9,203)	(366)	55,786	17,412	766,846
Agriculture.....	125,099	1,346	(1,129)	20,355	776	144,895
Total general fixed assets...	<u>\$3,383,063</u>	<u>\$ 8,017</u>	<u>\$ (1,479)</u>	<u>\$ 311,972</u>	<u>\$ 51,093</u>	<u>\$3,650,480</u>



GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP

The general long-term obligations account group is maintained to account for the outstanding principal balances of the State's long-term obligations not otherwise reported in proprietary funds.

STATEMENT OF GENERAL LONG-TERM OBLIGATIONS

June 30, 2000

*Exhibit H-1**(Dollars in Thousands)***AMOUNT AVAILABLE AND TO BE PROVIDED
FOR THE PAYMENT OF LONG-TERM OBLIGATIONS****Amounts Available In Other Funds:**

In General Fund.....	\$ 85
----------------------	-------

**Amount to be Provided for Retirement
of General Long-Term Obligations:**

By General Fund.....	2,507,974
By Special Revenue Funds.....	275,474
By Expendable Trust Funds.....	205
By Nonexpendable Trust Funds.....	84
Total available and to be provided.....	<u>\$ 2,783,822</u>

GENERAL LONG-TERM OBLIGATIONS**Bonds Payable:**

General obligation bonds payable.....	\$ 2,509,986
---------------------------------------	--------------

Other Payables:

Tax judgements payable.....	58,744
Notes payable.....	8,797
Deferred death benefit payable.....	85
Obligations for workers' compensation.....	7,123
Capital leases payable.....	853
Accrued vacation leave.....	198,234
Total general long-term obligations.....	<u>\$ 2,783,822</u>

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2000

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>							
	Total General Obligation Bonds	<i>Total General Fund</i>	Capital	Capital	Capital	Prison and	Prison and	Clean
			Improve- ment	Improve- ment	Improve- ment	Youth	Youth	Water
			Series 1989 5-1-89 6.5 - 6.9%	Series A 3-1-91 5.75 - 6.0%	Series 1991 10-1-91 5.3 - 5.6%	Facilities Series A 3-1-92 5.9 - 6.2%	Facilities Series B 10-1-93 2.5 - 4.5%	Refunding Series 1993 10-1-93 3.0 - 5.0%
[*]								
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law....	\$ 20,499	\$ 20,499	\$ 20,499	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 933, 1989 session law.....	75,000	75,000	—	75,000	—	—	—	—
Ch. 935, 1989 session law.....	200,000	200,000	—	—	—	112,500	87,500	—
Ch. 760, 1991 session law.....	45,000	45,000	—	—	45,000	—	—	—
Ch. 542, 1993 session law.....	695,000	695,000	—	—	—	—	—	—
Ch. 631, 1995 session law.....	1,350,000	1,350,000	—	—	—	—	—	—
General Statute Ch. 142.....	109,425	109,425	—	—	—	—	—	16,045
Ch. 590, 1995 session law.....	250,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law.....	200,000	200,000	—	—	—	—	—	—
Total bonds authorized and issued.....	2,944,924	2,694,924	20,499	75,000	45,000	112,500	87,500	16,045
Accretion.....	11,857	11,857	11,857	—	—	—	—	—
Bonds retired.....	363,195	329,845	19,900	58,500	32,500	35,300	21,400	13,595
Partial defeasances.....	83,600	83,600	—	—	—	59,600	—	—
Bonds outstanding— June 30, 2000.....	<u>\$ 2,509,986</u>	<u>\$ 2,293,336</u>	<u>\$ 12,456</u>	<u>\$ 16,500</u>	<u>\$ 12,500</u>	<u>\$ 17,600</u>	<u>\$ 66,100</u>	<u>\$ 2,450</u>
Bond Maturity As Follows:								
2000-01.....	\$ 152,037	\$ 135,362	\$ 1,787	\$ 8,300	\$ 6,200	\$ 8,800	\$ 8,800	\$ 2,450
2001-02.....	152,006	135,331	1,671	8,200	6,300	8,800	8,800	—
2002-03.....	151,933	135,258	1,563	—	—	—	8,800	—
2003-04.....	151,729	135,054	1,459	—	—	—	8,800	—
2004-05.....	152,039	135,364	1,364	—	—	—	8,800	—
2005-06.....	151,806	135,131	1,271	—	—	—	8,800	—
2006-07.....	151,608	134,933	1,188	—	—	—	8,800	—
2007-08.....	151,838	135,163	1,113	—	—	—	4,500	—
2008-09.....	151,615	134,940	1,040	—	—	—	—	—
2009-10.....	151,225	134,550	—	—	—	—	—	—
2010-11.....	151,200	134,525	—	—	—	—	—	—
2011-12.....	151,175	134,500	—	—	—	—	—	—
2012-13.....	151,030	134,480	—	—	—	—	—	—
2013-14.....	134,465	134,465	—	—	—	—	—	—
2014-15.....	134,450	134,450	—	—	—	—	—	—
2015-16.....	134,430	134,430	—	—	—	—	—	—
2016-17.....	86,500	86,500	—	—	—	—	—	—
2017-18.....	32,500	32,500	—	—	—	—	—	—
2018-19.....	16,400	16,400	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 2,509,986</u>	<u>\$ 2,293,336</u>	<u>\$ 12,456</u>	<u>\$ 16,500</u>	<u>\$ 12,500</u>	<u>\$ 17,600</u>	<u>\$ 66,100</u>	<u>\$ 2,450</u>

[*] Capital
Appreciation
Bonds

Payable from General Fund Revenues

Prison and Youth Services Facilities Refunding Series C 10-15-93	Capital Improvement Series 1994A 2-1-94	Clean Water Series 1994A 10-1-94	Clean Water Series 1995A 6-1-95	Capital Improvement Series 1997 1-1-97	Public School Building Series 1997A 3-1-97	Public School Building Series 1998A 4-1-98	Public School Building Series 1999 4-1-99	Clean Water Refunding Series 1999 4-1-99
4.2 - 4.8%	4.6 - 4.75%	5.7 - 5.8%	5.0 - 5.25%	4.8-5.1%	5.1-5.2%	4.75-5.0%	4.5-5.0%	2.9-5.0%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	400,000	40,000	60,000	195,000	—	—	—	—
67,475	—	—	—	—	450,000	450,000	450,000	—
—	—	—	—	—	—	—	—	25,905
—	—	—	—	—	—	—	—	—
67,475	400,000	40,000	60,000	195,000	450,000	450,000	450,000	25,905
—	—	—	—	—	—	—	—	—
3,995	43,500	8,000	9,000	9,000	24,000	32,000	18,500	655
—	—	24,000	—	—	—	—	—	—
<u>\$ 63,480</u>	<u>\$ 356,500</u>	<u>\$ 8,000</u>	<u>\$ 51,000</u>	<u>\$ 186,000</u>	<u>\$ 426,000</u>	<u>\$ 418,000</u>	<u>\$ 431,500</u>	<u>\$ 25,250</u>
\$ 640	\$ 28,000	\$ 2,000	\$ 3,000	\$ 12,000	\$ 9,500	\$ 16,000	\$ 18,500	\$ 160
670	28,000	2,000	3,000	12,000	12,000	16,000	18,500	165
9,500	28,000	2,000	3,000	12,000	26,500	16,000	18,500	170
9,390	28,000	2,000	3,000	12,000	26,500	16,000	18,500	180
9,285	28,000	—	3,000	12,000	27,000	16,000	18,500	2,190
9,175	28,000	—	3,000	12,000	27,000	16,000	18,500	2,160
9,060	28,000	—	3,000	12,000	27,000	16,000	18,500	2,135
8,940	28,000	—	3,000	12,000	31,500	16,000	18,500	2,110
6,820	28,000	—	3,000	12,000	32,000	22,000	18,500	2,080
—	28,000	—	3,000	12,000	32,000	29,500	18,500	2,050
—	28,000	—	3,000	12,000	32,000	29,500	18,500	2,025
—	28,000	—	3,000	12,000	32,000	29,500	18,500	2,000
—	20,500	—	3,000	12,000	32,000	37,000	18,500	1,980
—	—	—	3,000	12,000	32,000	57,500	18,500	1,965
—	—	—	3,000	12,000	32,000	57,500	18,500	1,950
—	—	—	3,000	6,000	15,000	27,500	71,500	1,930
—	—	—	3,000	—	—	—	74,000	—
—	—	—	—	—	—	—	8,500	—
—	—	—	—	—	—	—	—	—
<u>\$ 63,480</u>	<u>\$ 356,500</u>	<u>\$ 8,000</u>	<u>\$ 51,000</u>	<u>\$ 186,000</u>	<u>\$ 426,000</u>	<u>\$ 418,000</u>	<u>\$ 431,500</u>	<u>\$ 25,250</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

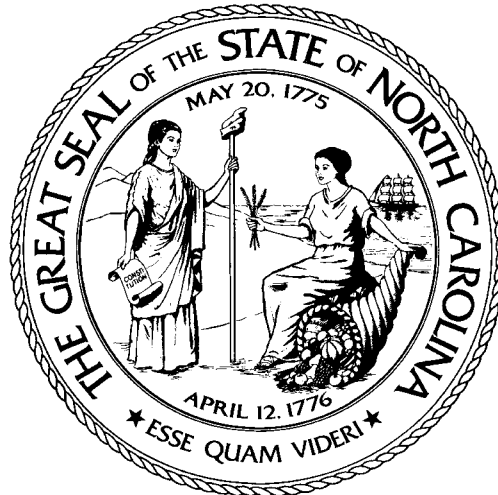
June 30, 2000

Exhibit H-2

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>			<i>Payable from Highway Trust Fund Revenues</i>
	Public Improvement Series 1999A	Public Improvement Series 1999B	Public Improvement Series 1999C	Highway Series 1997A
	9-1-99	9-1-99	10-1-99	11-1-97
	5.0-5.4%	6.7-6.75%	4.5-4.7%	4.5-5.0%
Bonds Authorized and Issued:				
Ch. 1048, 1987 session law.....	\$ —	\$ —	\$ —	\$ —
Ch. 933, 1989 session law.....	—	—	—	—
Ch. 935, 1989 session law.....	—	—	—	—
Ch. 760, 1991 session law.....	—	—	—	—
Ch. 542, 1993 session law.....	—	—	—	—
Ch. 631, 1995 session law.....	—	—	—	—
General Statute Ch. 142.....	—	—	—	—
Ch. 590, 1995 session law.....	—	—	—	250,000
Ch. 132, 1998 session law.....	177,400	20,000	2,600	—
Total bonds authorized and issued.....	177,400	20,000	2,600	250,000
Accretion.....	—	—	—	—
Bonds retired.....	—	—	—	33,350
Partial defeasances.....	—	—	—	—
Bonds outstanding— June 30, 2000.....	<u>\$ 177,400</u>	<u>\$ 20,000</u>	<u>\$ 2,600</u>	<u>\$ 216,650</u>
Bond Maturity As Follows:				
2000-01.....	\$ 6,000	\$ 2,850	\$ 375	\$ 16,675
2001-02.....	6,000	2,850	375	16,675
2002-03.....	6,000	2,850	375	16,675
2003-04.....	6,000	2,850	375	16,675
2004-05.....	6,000	2,850	375	16,675
2005-06.....	6,000	2,850	375	16,675
2006-07.....	6,000	2,900	350	16,675
2007-08.....	9,500	—	—	16,675
2008-09.....	9,500	—	—	16,675
2009-10.....	9,500	—	—	16,675
2010-11.....	9,500	—	—	16,675
2011-12.....	9,500	—	—	16,675
2012-13.....	9,500	—	—	16,550
2013-14.....	9,500	—	—	—
2014-15.....	9,500	—	—	—
2015-16.....	9,500	—	—	—
2016-17.....	9,500	—	—	—
2017-18.....	24,000	—	—	—
2018-19.....	16,400	—	—	—
Total Bonds Outstanding.....	<u>\$ 177,400</u>	<u>\$ 20,000</u>	<u>\$ 2,600</u>	<u>\$ 216,650</u>

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COMPONENT UNITS:
GOVERNMENTAL FUNDS
PROPRIETARY FUNDS
COLLEGE AND UNIVERSITY

The component units funds include the Golden LEAF Foundation, the University of North Carolina system, the community colleges, and the component unit proprietary funds. These 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. The component units are included in the financial reporting entity because of the significance of their operational or financial relationships with the State. The Golden LEAF Foundation is a discretely presented governmental component unit (Exhibit A-1, Exhibit A-2).

Component units are comprised of the following entities:

Governmental Funds

Golden LEAF Foundation

University of North Carolina System

University of North Carolina -
 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 School of the Arts
 North Carolina State University
 University of North Carolina - Asheville
 University of North Carolina - Chapel Hill
 University of North Carolina - Charlotte
 University of North Carolina - Greensboro
 University of North Carolina - Pembroke
 University of North Carolina - Wilmington
 Western Carolina University
 Winston-Salem State University
 UNC Hospitals

Proprietary Funds

North Carolina Housing Finance Agency
 State Education Assistance Authority
 State Health Plan
 Disability Income Plan of N.C.
 North Carolina State Ports Authority
 North Carolina Railroad Company
 North Carolina Low Level Radioactive Waste
 Management Authority
 North Carolina Global TransPark Authority
 MCNC
 North Carolina Biotechnology Center
 North Carolina Agricultural Finance Authority
 North Carolina Partnership for Children, Inc.
 North Carolina Ports Railway Commission
 North Carolina Rural Rehabilitation Corporation
 North Carolina Regional Economic Development
 Commissions:
 Northeastern North Carolina Regional Economic
 Development Commission
 Southeastern North Carolina Regional Economic
 Development Commission
 Western North Carolina Regional Economic
 Development Commission

Community Colleges

Alamance Comm. College
 South Piedmont Comm. College
 Asheville-Buncombe Technical Comm. College
 Beaufort County Comm. College
 Bladen Community College
 Blue Ridge Comm. College
 Brunswick Comm. College
 Caldwell Comm. College and Technical 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
 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 Technical Comm. College

**COMPONENT UNITS — PROPRIETARY FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Disability Income Plan of N.C.	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority
ASSETS							
Current Assets:							
Cash and cash equivalents.....	\$ 23,442	\$ 212,742	\$ 188,019	\$ 4,277	\$ 14,283	\$ 30,143	\$ —
Investments.....	—	181,848	—	194,047	25,113	—	—
Securities lending collateral.....	5,490	136,962	117,271	35,971	—	—	—
Receivables:							
Accounts receivable.....	1,348	25	2,957	2,038	4,012	9	—
Intergovernmental receivables.....	88	9,375	—	—	—	430	—
Interest receivable.....	11,122	13,558	1,087	30	362	—	—
Premiums receivable.....	—	—	737	—	—	—	—
Contributions receivable.....	—	—	—	4,020	—	—	—
Due from primary government.....	—	14,455	—	—	649	—	—
Notes receivable.....	—	94,318	—	—	—	—	—
Inventories.....	—	1	—	—	786	—	—
Prepaid items.....	—	474	—	—	472	14	—
Total current assets.....	<u>41,490</u>	<u>663,758</u>	<u>310,071</u>	<u>240,383</u>	<u>45,677</u>	<u>30,596</u>	<u>—</u>
Noncurrent Assets:							
Investments.....	301,924	—	—	—	—	—	—
Accounts receivable.....	—	—	—	—	—	—	—
Notes receivable.....	1,029,908	647,953	—	—	—	—	—
Prepaid items.....	—	4,784	—	—	227	—	—
Patents.....	—	—	—	—	—	—	—
Total noncurrent assets.....	<u>1,331,832</u>	<u>652,737</u>	<u>—</u>	<u>—</u>	<u>227</u>	<u>—</u>	<u>—</u>
Fixed Assets:							
Land.....	—	—	—	—	12,811	—	—
Buildings.....	—	—	—	—	111,085	350	—
Other structures and improvements.....	—	—	—	—	39,732	7,849	—
Machinery and equipment.....	1,049	1,539	19	—	52,043	—	—
Construction in progress.....	—	—	—	—	4,424	—	—
Accumulated depreciation.....	(656)	(673)	(17)	—	(101,664)	(335)	—
Total fixed assets.....	<u>393</u>	<u>866</u>	<u>2</u>	<u>—</u>	<u>118,431</u>	<u>7,864</u>	<u>—</u>
Total Assets.....	<u>\$ 1,373,715</u>	<u>\$ 1,317,361</u>	<u>\$ 310,073</u>	<u>\$ 240,383</u>	<u>\$ 164,335</u>	<u>\$ 38,460</u>	<u>\$ —</u>

Exhibit I-1

N.C. Global TransPark Authority	MCNC	N.C. Bio- technology Center	N.C. Regional Economic Development Commissions	N.C. Agricultural Finance Authority	N.C. Ports Railway Commission	N.C. Partnership for Children Inc.	N.C. Rural Rehabilitation Corporation	Totals
\$ 12,760	\$ 645	\$ 1,464	\$ 2,144	\$ 1,648	\$ 878	\$ 8,778	\$ 3,489	\$ 504,712
19,673	229,360	28,791	913	—	—	129	—	679,874
10,624	—	—	—	1,004	514	—	533	308,369
238	5,422	87	40	—	43	20,922	—	37,141
—	503	—	4	—	—	—	—	10,400
60	—	254	5	110	—	—	142	26,730
—	—	—	—	—	—	—	—	737
—	—	—	—	—	—	—	—	4,020
—	—	—	—	—	—	—	—	15,104
—	167	—	100	3,783	—	—	5,123	103,491
—	—	—	—	3	—	—	—	790
—	636	—	16	—	5	9	—	1,626
<u>43,355</u>	<u>236,733</u>	<u>30,596</u>	<u>3,222</u>	<u>6,548</u>	<u>1,440</u>	<u>29,838</u>	<u>9,287</u>	<u>1,692,994</u>
—	—	—	—	—	—	—	—	301,924
—	—	—	—	—	—	2,045	—	2,045
—	—	1,261	—	—	—	—	—	1,679,122
—	—	—	—	—	—	—	—	5,011
—	693	—	—	—	—	—	—	693
<u>—</u>	<u>693</u>	<u>1,261</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,045</u>	<u>—</u>	<u>1,988,795</u>
7,223	—	—	67	—	525	—	—	20,626
9,671	20,229	7,271	83	—	154	—	125	148,968
17,875	—	—	155	—	—	21	—	65,632
1,918	38,072	1,570	820	—	1,226	271	—	98,527
6,324	1,404	44	—	—	—	—	—	12,196
<u>(6,294)</u>	<u>(44,383)</u>	<u>(3,444)</u>	<u>(616)</u>	<u>—</u>	<u>(958)</u>	<u>(56)</u>	<u>(18)</u>	<u>(159,114)</u>
<u>36,717</u>	<u>15,322</u>	<u>5,441</u>	<u>509</u>	<u>—</u>	<u>947</u>	<u>236</u>	<u>107</u>	<u>186,835</u>
<u>\$ 80,072</u>	<u>\$ 252,748</u>	<u>\$ 37,298</u>	<u>\$ 3,731</u>	<u>\$ 6,548</u>	<u>\$ 2,387</u>	<u>\$ 32,119</u>	<u>\$ 9,394</u>	<u>\$ 3,868,624</u>

Continued

**COMPONENT UNITS — PROPRIETARY FUNDS
COMBINING BALANCE SHEET (continued)**

June 30, 2000

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Disability Income Plan of N.C.	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority
LIABILITIES AND FUND EQUITY:							
Liabilities:							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 16,553	\$ 5,566	\$ 5,700	\$ —	\$ 831	\$ 191	\$ —
Accrued payroll.....	—	46	—	—	168	—	—
Intergovernmental payable.....	1,380	76	—	—	—	—	—
Obligations under securities lending.....	5,490	136,962	117,271	35,971	—	—	—
Due to component units.....	—	—	—	—	—	—	—
Due to primary government.....	—	—	1	—	—	19,918	—
Contracts payable.....	—	—	—	—	—	—	—
Notes payable.....	—	—	—	—	64	—	—
Claims payable.....	—	—	133,167	218,527	—	—	—
Capital leases payable.....	—	—	—	—	—	—	—
Bonds payable.....	89,964	—	—	—	1,100	—	—
Interest payable.....	12,596	3,654	—	—	77	—	—
Accrued vacation leave.....	243	106	47	—	922	—	—
Deferred revenue.....	—	—	1,539	—	681	—	—
Total current liabilities.....	<u>126,226</u>	<u>146,410</u>	<u>257,725</u>	<u>254,498</u>	<u>3,843</u>	<u>20,109</u>	<u>—</u>
Noncurrent Liabilities:							
Due to primary government.....	—	—	—	—	—	6,672	—
Advance from primary government.....	—	—	—	—	—	61,000	—
Contracts payable.....	—	—	—	—	—	—	—
Notes payable.....	—	—	—	—	551	—	—
Intergovernmental payable.....	—	17,564	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—	—	—
Bonds payable.....	1,089,744	695,398	—	—	10,660	—	—
Total noncurrent liabilities.....	<u>1,089,744</u>	<u>712,962</u>	<u>—</u>	<u>—</u>	<u>11,211</u>	<u>67,672</u>	<u>—</u>
Total Liabilities.....	<u>1,215,970</u>	<u>859,372</u>	<u>257,725</u>	<u>254,498</u>	<u>15,054</u>	<u>87,781</u>	<u>—</u>
Fund Equity:							
Contributed capital.....	—	—	—	—	133,523	1,549	—
Retained earnings.....	157,745	457,989	52,348	(14,115)	15,758	(50,870)	—
Total Fund Equity.....	<u>157,745</u>	<u>457,989</u>	<u>52,348</u>	<u>(14,115)</u>	<u>149,281</u>	<u>(49,321)</u>	<u>—</u>
Total Liabilities and Fund Equity.....	<u>\$ 1,373,715</u>	<u>\$ 1,317,361</u>	<u>\$ 310,073</u>	<u>\$ 240,383</u>	<u>\$ 164,335</u>	<u>\$ 38,460</u>	<u>\$ —</u>

Exhibit I-1

<u>N.C. Global TransPark Authority</u>	<u>MCNC</u>	<u>N.C. Biotechnology Center</u>	<u>Regional Economic Development Commissions</u>	<u>N.C. Agricultural Finance Authority</u>	<u>N.C. Ports Railway Commission</u>	<u>N.C. Partnership for Children Inc.</u>	<u>N.C. Rural Rehabilitation Corporation</u>	<u>Totals</u>
\$ 1,967	\$ 2,678	\$ 88	\$ 117	\$ 2	\$ —	\$ 307	\$ —	\$ 34,000
—	35	—	—	—	—	16	—	265
—	—	—	—	—	—	—	285	1,741
10,624	—	—	—	1,004	514	—	533	308,369
—	—	116	—	—	—	—	—	116
1,234	—	—	—	—	—	22,612	—	43,765
—	—	5,443	—	—	—	—	—	5,443
—	331	—	—	—	—	—	—	395
—	—	—	—	—	—	—	16	351,710
—	2,986	—	5	—	—	—	—	2,991
—	—	—	—	—	—	—	—	91,064
—	8	—	—	—	—	—	—	16,335
113	714	—	92	18	20	117	—	2,392
3	3,590	1,839	33	—	—	7,040	39	14,764
<u>13,941</u>	<u>10,342</u>	<u>7,486</u>	<u>247</u>	<u>1,024</u>	<u>534</u>	<u>30,092</u>	<u>873</u>	<u>873,350</u>
—	—	—	—	—	—	—	—	6,672
25,000	—	—	—	—	—	—	—	86,000
—	—	1,395	—	—	—	—	—	1,395
—	132	—	—	—	—	—	—	683
—	—	—	—	—	—	—	—	17,564
—	3,673	—	3	—	—	—	—	3,676
—	—	—	—	—	—	—	—	1,795,802
<u>25,000</u>	<u>3,805</u>	<u>1,395</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,911,792</u>
<u>38,941</u>	<u>14,147</u>	<u>8,881</u>	<u>250</u>	<u>1,024</u>	<u>534</u>	<u>30,092</u>	<u>873</u>	<u>2,785,142</u>
40,807	647	—	—	500	50	—	1,120	178,196
324	237,954	28,417	3,481	5,024	1,803	2,027	7,401	905,286
<u>41,131</u>	<u>238,601</u>	<u>28,417</u>	<u>3,481</u>	<u>5,524</u>	<u>1,853</u>	<u>2,027</u>	<u>8,521</u>	<u>1,083,482</u>
<u>\$ 80,072</u>	<u>\$ 252,748</u>	<u>\$ 37,298</u>	<u>\$ 3,731</u>	<u>\$ 6,548</u>	<u>\$ 2,387</u>	<u>\$ 32,119</u>	<u>\$ 9,394</u>	<u>\$ 3,868,624</u>

COMPONENT UNITS — PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Disability Income Plan of N.C.	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority
Operating Revenues:							
Sales and services.....	\$ —	\$ —	\$ 14,457	\$ —	\$ 24,236	\$ —	\$ —
Investment earnings.....	13,902	18,134	14,951	8,648	—	—	—
Interest earnings on loans.....	69,405	56,480	—	—	—	—	—
Rental and lease earnings.....	—	—	—	—	1,733	24,319	—
Fees, licenses and fines.....	3,186	—	—	—	—	—	—
Contributions.....	—	—	—	50,067	—	—	—
Insurance premiums.....	—	—	763,333	—	—	—	—
Miscellaneous.....	1,296	1,663	—	1	—	—	—
Total operating revenues.....	<u>87,789</u>	<u>76,277</u>	<u>792,741</u>	<u>58,716</u>	<u>25,969</u>	<u>24,319</u>	<u>—</u>
Operating Expenses:							
Personal services.....	4,595	1,766	716	—	13,596	444	—
Supplies and materials.....	174	56	23	—	1,716	—	—
Services.....	6,168	16,940	18,992	408	4,293	665	—
Interest.....	65,123	35,657	—	—	—	—	—
Depreciation/amortization.....	160	640	2	—	8,009	9	—
Claims and benefits.....	—	211	816,842	43,105	—	—	—
Insurance and bonding.....	55	—	—	—	753	105	—
Other.....	560	19,994	51	—	358	252	—
Total operating expenses.....	<u>76,835</u>	<u>75,264</u>	<u>836,626</u>	<u>43,513</u>	<u>28,725</u>	<u>1,475</u>	<u>—</u>
Operating income (loss).....	<u>10,954</u>	<u>1,013</u>	<u>(43,885)</u>	<u>15,203</u>	<u>(2,756)</u>	<u>22,844</u>	<u>—</u>
Nonoperating Revenues							
(Expenses):							
Gain (loss) on sale of equipment.....	—	—	—	—	20	—	—
Investment earnings.....	—	—	—	—	1,309	1,702	13
Donations.....	—	—	—	—	—	—	—
Interest expense.....	—	—	—	—	(534)	(3,812)	—
Grants.....	—	3,197	—	—	—	—	—
Grants, aid and subsidies.....	—	(3,318)	—	—	—	—	—
Development stage expense.....	—	—	—	—	—	—	(580)
Miscellaneous.....	578	—	3	—	—	44	—
Total nonoperating revenues							
(expenses).....	<u>578</u>	<u>(121)</u>	<u>3</u>	<u>—</u>	<u>795</u>	<u>(2,066)</u>	<u>(567)</u>
Income (loss) before operating transfers.....	<u>11,532</u>	<u>892</u>	<u>(43,882)</u>	<u>15,203</u>	<u>(1,961)</u>	<u>20,778</u>	<u>(567)</u>
Operating Transfers:							
Transfers from component units.....	—	10,192	—	—	—	—	—
Transfers from primary government..	3,300	14,455	16	—	—	—	—
Transfers to component units.....	—	(353)	—	—	—	—	—
Transfers to primary government.....	(52)	—	—	—	(1)	(19,918)	—
Total operating transfers in (out).....	<u>3,248</u>	<u>24,294</u>	<u>16</u>	<u>—</u>	<u>(1)</u>	<u>(19,918)</u>	<u>—</u>
Net income (loss).....	<u>14,780</u>	<u>25,186</u>	<u>(43,866)</u>	<u>15,203</u>	<u>(1,962)</u>	<u>860</u>	<u>(567)</u>
Excess of revenues over (under) expenditures from governmental operations.....	<u>(2,212)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund equity — July 1.....	145,177	432,803	96,214	(29,318)	149,256	(49,872)	215
Restatements.....	—	—	—	—	—	—	6
Increase (decrease) in contributed capital.....	—	—	—	—	1,987	(309)	346
Fund equity— June 30.....	<u>\$ 157,745</u>	<u>\$ 457,989</u>	<u>\$ 52,348</u>	<u>\$ (14,115)</u>	<u>\$ 149,281</u>	<u>\$ (49,321)</u>	<u>\$ —</u>

Exhibit I-2

N.C. Global TransPark Authority	MCNC	N.C. Bio- technology Center	N.C. Regional Economic Development Commissions	N.C. Agricultural Finance Authority	N.C. Ports Railway Commission	N.C. Partnership for Children, Inc.	N.C. Rural Rehabilitation Corporation	Totals
\$ —	\$ 34,734	\$ 495	\$ —	\$ 48	\$ —	\$ —	\$ —	\$ 73,970
—	—	—	—	235	—	—	38	55,908
—	—	103	—	286	—	—	378	126,652
204	—	—	—	—	549	—	14	26,819
—	—	—	—	2	—	—	—	3,188
—	—	—	—	—	—	—	—	50,067
—	—	—	—	—	—	—	—	763,333
129	2,733	769	—	—	52	—	—	6,643
<u>333</u>	<u>37,467</u>	<u>1,367</u>	<u>—</u>	<u>571</u>	<u>601</u>	<u>—</u>	<u>430</u>	<u>1,106,580</u>
1,245	13,254	2,109	1,050	291	280	2,708	39	42,093
306	2,287	103	66	1	42	447	—	5,221
978	6,322	98	1,051	65	213	3,531	4	59,728
—	543	—	—	—	—	—	—	101,323
950	7,050	348	164	—	117	32	4	17,485
—	—	—	—	—	—	—	—	860,158
—	119	32	11	—	20	21	2	1,118
483	9,591	1,302	215	46	24	1,647	—	34,523
<u>3,962</u>	<u>39,166</u>	<u>3,992</u>	<u>2,557</u>	<u>403</u>	<u>696</u>	<u>8,386</u>	<u>49</u>	<u>1,121,649</u>
<u>(3,629)</u>	<u>(1,699)</u>	<u>(2,625)</u>	<u>(2,557)</u>	<u>168</u>	<u>(95)</u>	<u>(8,386)</u>	<u>381</u>	<u>(15,069)</u>
—	(175)	—	—	—	—	—	—	(155)
1,977	240,628	1,478	212	—	56	193	—	247,568
—	—	—	186	—	—	—	—	186
(1,924)	—	—	(2)	—	—	—	—	(6,272)
—	—	—	113	—	—	—	—	3,310
—	—	(5,260)	(1,452)	—	—	(137,380)	(27)	(147,437)
—	—	—	—	—	—	—	—	(580)
—	(10,282)	—	180	—	—	87	—	(9,390)
<u>53</u>	<u>230,171</u>	<u>(3,782)</u>	<u>(763)</u>	<u>—</u>	<u>56</u>	<u>(137,100)</u>	<u>(27)</u>	<u>87,230</u>
<u>(3,576)</u>	<u>228,472</u>	<u>(6,407)</u>	<u>(3,320)</u>	<u>168</u>	<u>(39)</u>	<u>(145,486)</u>	<u>354</u>	<u>72,161</u>
—	—	—	—	—	—	—	—	10,192
3,051	—	9,639	3,813	128	—	145,882	400	180,684
—	—	—	—	—	—	—	—	(353)
—	—	—	—	—	—	—	—	(19,971)
<u>3,051</u>	<u>—</u>	<u>9,639</u>	<u>3,813</u>	<u>128</u>	<u>—</u>	<u>145,882</u>	<u>400</u>	<u>170,552</u>
<u>(525)</u>	<u>228,472</u>	<u>3,232</u>	<u>493</u>	<u>296</u>	<u>(39)</u>	<u>396</u>	<u>754</u>	<u>242,713</u>
—	—	—	—	—	—	—	—	(2,212)
27,130	9,735	25,185	2,972	5,228	1,894	1,631	7,767	826,017
2,054	(235)	—	16	—	(2)	—	—	1,839
<u>12,472</u>	<u>629</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,125</u>
<u>\$ 41,131</u>	<u>\$ 238,601</u>	<u>\$ 28,417</u>	<u>\$ 3,481</u>	<u>\$ 5,524</u>	<u>\$ 1,853</u>	<u>\$ 2,027</u>	<u>\$ 8,521</u>	<u>\$ 1,083,482</u>

**COMPONENT UNITS — PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 2000

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	State Health Plan	Disability Income Plan of N.C.	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority
Cash Provided From (Used For) Operations:							
Operating income (loss).....	\$ 10,954	\$ 1,013	\$ (43,885)	\$ 15,203	\$ (2,756)	\$ 22,844	\$ —
Adjustments to reconcile operating income to net cash flows from operating activities:							
Depreciation/amortization.....	160	640	2	—	8,009	9	—
Investment earnings.....	(13,902)	(18,134)	(14,951)	(8,648)	—	—	—
Mortgage/loan/note principal repayments.....	95,276	246,133	—	—	—	—	—
Loan sales.....	—	—	—	—	—	—	—
Mortgages/loans/notes issued.....	(249,110)	(391,722)	—	—	—	—	—
Mortgages/loans/note cancellation and write-off.....	—	6,624	—	—	—	—	—
Allowances and uncollectible accounts.....	186	3,019	—	—	(65)	—	—
Capitalized Interest.....	—	(5,842)	—	—	—	—	—
Restatements and adjustments to cash.....	—	—	—	—	—	—	6
Interest expense.....	65,123	—	—	—	—	—	—
Equipment donated to counties.....	—	—	—	—	—	—	—
Write-off of abandoned projects.....	—	—	—	—	19	—	—
Development stage expense.....	—	—	—	—	—	—	(580)
Nonoperating miscellaneous income (expense).....	578	—	3	—	—	(3,768)	—
(Increases) decreases in assets:							
Receivables.....	(806)	(311)	(553)	(562)	750	(170)	—
Due from primary government.....	—	76	—	—	(649)	—	—
Inventories.....	—	4	—	—	(42)	—	—
Prepaid items.....	—	—	—	—	(125)	1	—
Patents.....	—	—	—	—	—	—	—
Increases (decreases) in liabilities:							
Accounts payable and accrued liabilities.....	2,935	11,341	105	—	(760)	119	(19)
Due to component units.....	—	—	—	—	—	—	—
Due to primary government.....	(3)	—	—	—	—	3,813	—
Contracts payable.....	—	—	—	—	—	—	—
Claims payable.....	—	—	(3,234)	2,095	—	—	—
Accrued vacation leave.....	24	22	8	—	27	—	(31)
Deferred revenue.....	—	—	1,122	—	66	—	—
Total cash provided from (used for) operations.....	(88,585)	(147,137)	(61,383)	8,088	4,474	22,848	(624)
Cash Provided From (Used For) Noncapital Financing Activities:							
Proceeds from sale of bonds/notes.....	265,000	200,245	—	—	—	—	—
Repayment of bond/note principal.....	(85,355)	(47,919)	—	—	—	—	—
Interest payments on bonds and notes.....	(66,514)	—	—	—	—	—	—
Bond issuance cost.....	(4,475)	(1,630)	—	—	—	—	—
Grants.....	—	3,197	—	—	—	—	—
Grants, aid and subsidies.....	—	(3,318)	—	—	—	—	—
Operating transfers from component units.....	—	10,192	—	—	—	—	—
Operating transfers from primary government.....	3,300	14,455	16	—	—	—	—
Operating transfers to component units.....	—	(353)	—	—	—	—	—
Operating transfers to primary government.....	(52)	—	—	—	(1)	—	—
Increase in contributed capital.....	—	—	—	—	—	—	346
Decrease in contributed capital.....	—	—	—	—	(13)	(309)	—
Nonoperating cash donations.....	—	—	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	111,904	174,869	16	—	(14)	(309)	346

Exhibit I-3

N.C. Global TransPark Authority	MCNC	N.C. Bio-technology Center	N.C. Regional Economic Development Commissions	N.C. Agricultural Finance Authority	N.C. Ports Railway Commission	N.C. Partnership for Children, Inc.	N.C. Rural Rehabilitation Corporation	Totals
\$ (3,629)	\$ (1,699)	\$ (2,625)	\$ (2,557)	\$ 168	\$ (95)	\$ (8,386)	\$ 381	\$ (15,069)
950	7,050	348	164	—	117	32	4	17,485
—	—	—	—	(235)	—	—	(38)	(55,908)
—	—	3,352	—	84	—	—	1,094	345,939
—	—	—	—	1,725	—	—	—	1,725
—	—	(388)	(100)	(3,299)	—	—	(796)	(645,415)
—	—	—	—	—	—	—	—	6,624
—	—	21	—	—	—	—	—	3,161
—	—	—	—	—	—	—	—	(5,842)
29	374	—	—	—	2	—	—	411
—	—	—	—	—	—	—	—	65,123
—	—	—	35	—	—	—	—	35
—	—	—	—	—	—	—	—	19
—	—	—	—	—	—	—	—	(580)
—	(10,282)	—	180	—	—	87	—	(13,202)
1,413	(801)	25	(19)	(75)	(1)	(10,163)	7	(11,266)
—	—	—	—	—	—	—	—	(573)
—	—	—	—	(1)	—	—	—	(39)
—	666	—	(3)	—	5	55	—	599
—	(385)	—	—	—	—	—	—	(385)
(118)	(1,328)	(44)	(19)	2	(41)	(508)	8	11,673
—	—	116	—	—	—	—	—	116
11	—	—	—	—	—	16,282	—	20,103
—	—	(172)	—	—	—	—	—	(172)
—	—	—	—	—	—	—	—	(1,139)
80	108	—	(29)	(1)	8	27	—	243
—	49	340	32	—	(10)	594	3	2,196
(1,264)	(6,248)	973	(2,316)	(1,632)	(15)	(1,980)	663	(274,138)
—	—	—	—	—	—	—	—	465,245
—	—	(3,000)	—	—	(92)	—	—	(136,366)
—	—	—	—	—	—	—	—	(66,514)
—	—	—	—	—	—	—	—	(6,105)
—	—	—	113	—	—	—	—	3,310
—	—	(5,260)	(1,452)	—	—	(137,380)	(27)	(147,437)
—	—	—	—	—	—	—	—	10,192
3,051	—	9,639	3,813	128	—	145,882	400	180,684
—	—	—	—	—	—	—	—	(353)
—	—	—	—	—	—	—	—	(53)
—	629	—	—	—	—	—	—	975
—	—	—	—	—	—	—	—	(322)
—	—	—	186	—	—	—	—	186
3,051	629	1,379	2,660	128	(92)	8,502	373	303,442

Continued

**COMPONENT UNITS — COLLEGE AND UNIVERSITY FUNDS
COMBINING BALANCE SHEET**

June 30, 2000

Exhibit I-4

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
ASSETS			
Cash and cash equivalents.....	\$ 1,294,674	\$ 92,078	\$ 1,386,752
Investments.....	2,245,527	25,503	2,271,030
Securities lending collateral.....	533,412	35,148	568,560
Receivables:			
Accounts receivable.....	318,208	10,188	328,396
Intergovernmental receivables.....	69,884	136,505	206,389
Interest receivable.....	8,063	299	8,362
Contributions receivable.....	2,015	—	2,015
Due from other funds.....	86,885	661	87,546
Due from component units.....	1,677	—	1,677
Due from primary government.....	12,489	33,464	45,953
Notes receivable.....	86,397	396	86,793
Inventories.....	48,986	12,620	61,606
Goodwill.....	3,543	—	3,543
Prepaid items.....	27,818	571	28,389
Fixed assets.....	5,513,573	1,287,417	6,800,990
Total Assets.....	<u>\$ 10,253,151</u>	<u>\$ 1,634,850</u>	<u>\$ 11,888,001</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities:			
Accounts payable.....	\$ 148,765	\$ 12,216	\$ 160,981
Accrued payroll.....	74,281	6,569	80,850
Intergovernmental payables.....	29,465	425	29,890
Arbitrage rebate payable.....	3,401	—	3,401
Obligations under securities lending.....	533,412	35,148	568,560
Due to other funds.....	86,885	661	87,546
Due to component units.....	1,561	—	1,561
Due to primary government.....	1,641	23	1,664
Obligations under reverse repurchase agreements.....	53,409	—	53,409
Notes payable.....	42,115	1,136	43,251
Claims and benefits payable.....	16,920	—	16,920
Capital leases payable.....	4,211	359	4,570
Bonds payable.....	1,027,572	—	1,027,572
Interest payable.....	12,499	11	12,510
Deposits payable.....	12,002	—	12,002
Funds held for others.....	465,046	5,514	470,560
Accrued vacation leave.....	114,181	25,751	139,932
Deferred revenue.....	31,476	29	31,505
Total Liabilities.....	<u>2,658,842</u>	<u>87,842</u>	<u>2,746,684</u>
Fund Equity:			
Investment in fixed assets.....	4,402,087	1,227,445	5,629,532
Fund balances:			
Restricted for:			
Loans.....	99,661	134	99,795
Endowments.....	1,016,603	13,132	1,029,735
Revenue bonds.....	67,194	—	67,194
Restricted funds.....	517,908	206,865	724,773
Total restricted fund balances.....	<u>1,701,366</u>	<u>220,131</u>	<u>1,921,497</u>
Unrestricted:			
Quasi-endowment.....	147,062	1,621	148,683
Undesignated.....	1,343,794	97,811	1,441,605
Total Fund Equity.....	<u>7,594,309</u>	<u>1,547,008</u>	<u>9,141,317</u>
Total Liabilities and Fund Equity.....	<u>\$ 10,253,151</u>	<u>\$ 1,634,850</u>	<u>\$ 11,888,001</u>

COMPONENT UNITS — COLLEGE AND UNIVERSITY FUNDS
COMBINING STATEMENT OF CHANGES IN FUND EQUITY

For the fiscal year ended June 30, 2000

Exhibit I-5

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
Revenues and Other Additions:			
Tuition and fees.....	\$ 428,463	\$ 134,397	\$ 562,860
Federal appropriations.....	22,138	—	22,138
County appropriations.....	—	120,951	120,951
Federal contracts and grants.....	590,283	117,371	707,654
State contracts and grants.....	103,102	473	103,575
Local contracts and grants.....	7,878	106,160	114,038
Nongovernmental grants and contracts.....	148,349	8,146	156,495
Gifts.....	156,561	13,654	170,215
Endowment income.....	22,933	935	23,868
Sales and services.....	877,802	55,008	932,810
Investment earnings.....	219,163	5,829	224,992
Expended for plant facilities.....	279,967	87,185	367,152
Retirement of indebtedness.....	45,027	432	45,459
Income from hospital operations.....	704,168	—	704,168
Other revenues and additions.....	47,940	6,286	54,226
Total revenues and other additions.....	<u>3,653,774</u>	<u>656,827</u>	<u>4,310,601</u>
Expenditures and Other Deductions:			
Educational and general.....	2,967,110	915,755	3,882,865
Auxiliary enterprises.....	475,706	49,687	525,393
Internal service.....	32,222	4,243	36,465
Independent operations.....	13,818	—	13,818
Professional clinical services.....	238,969	—	238,969
Indirect cost recovered.....	99,217	784	100,001
Refunded to grantors.....	756	7	763
Administrative and collection costs, loan cancellation and bad debts.....	3,006	—	3,006
Expended for plant facilities.....	230,058	100,177	330,235
Retirement of indebtedness.....	43,960	197	44,157
Payment to escrow agent.....	907	—	907
Interest on indebtedness.....	38,746	87	38,833
Disposal of plant facilities.....	48,229	28,436	76,665
Hospital operations.....	819,779	—	819,779
Other expenditures and deductions.....	3,412	1,889	5,301
Total expenditures and other deductions.....	<u>5,015,895</u>	<u>1,101,262</u>	<u>6,117,157</u>
Transfers - Additions (Deductions):			
Operating transfers from primary government.....	1,758,785	602,229	2,361,014
Operating transfers to primary government.....	(103,131)	—	(103,131)
Operating transfers from component units.....	353	—	353
Operating transfers to component units.....	(10,192)	—	(10,192)
Net transfers.....	<u>1,645,815</u>	<u>602,229</u>	<u>2,248,044</u>
Net increase in fund equity.....	283,694	157,794	441,488
Fund equity — July 1.....	7,318,405	1,390,467	8,708,872
Restatements.....	(7,546)	(1,253)	(8,799)
Residual equity transfers out.....	(244)	—	(244)
Fund equity — June 30.....	<u>\$ 7,594,309</u>	<u>\$ 1,547,008</u>	<u>\$ 9,141,317</u>

COMPONENT UNITS — COLLEGE AND UNIVERSITY FUNDS
COMBINING STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND TRANSFERS

For the Fiscal Year Ended June 30, 2000

Exhibit I-6

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
Revenues:			
Tuition and fees.....	\$ 427,516	\$ 134,381	\$ 561,897
Federal appropriations.....	22,138	—	22,138
County appropriations.....	—	104,849	104,849
Federal contracts and grants.....	502,214	114,136	616,350
State contracts and grants.....	96,329	—	96,329
Local contracts and grants.....	7,472	1,878	9,350
Nongovernmental grants and contracts.....	121,331	6,145	127,476
Gifts.....	124,272	8,511	132,783
Endowment income.....	33,567	561	34,128
Sales and services.....	876,974	55,031	932,005
Investment earnings.....	45,993	4,113	50,106
Other revenues.....	38,386	5,919	44,305
Total current revenues.....	<u>2,296,192</u>	<u>435,524</u>	<u>2,731,716</u>
Expenditures:			
Educational and general:			
Instruction.....	1,204,093	518,548	1,722,641
Organized research.....	410,571	974	411,545
Public service.....	271,989	5,189	277,178
Academic support.....	256,506	21,315	277,821
Student services.....	80,751	72,556	153,307
Institutional support.....	255,488	128,170	383,658
Physical plant operations.....	228,117	79,676	307,793
Student financial aid.....	259,595	89,327	348,922
Total educational and general.....	<u>2,967,110</u>	<u>915,755</u>	<u>3,882,865</u>
Auxiliary enterprises.....	475,706	49,687	525,393
Internal service.....	32,222	4,243	36,465
Independent operations.....	13,818	—	13,818
Professional clinical services.....	238,969	—	238,969
Total expenditures.....	<u>3,727,825</u>	<u>969,685</u>	<u>4,697,510</u>
Transfers and Additions (Deductions):			
Excess of restricted receipts over (under)			
revenues earned.....	993	950	1,943
Refunded to grantors.....	(756)	—	(756)
Mandatory transfers.....	(79,513)	—	(79,513)
Non-mandatory transfers.....	(24,118)	(1,286)	(25,404)
Interinstitutional transfers.....	(2,705)	—	(2,705)
Operating transfers from primary government.....	1,632,581	541,720	2,174,301
Operating transfers to primary government.....	(15,064)	—	(15,064)
Operating transfers from component units.....	353	—	353
Operating transfers to component units.....	(10,192)	—	(10,192)
Net increase in fund equity.....	<u>\$ 69,946</u>	<u>\$ 7,223</u>	<u>\$ 77,169</u>



STATISTICAL SECTION

**REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
GAAP BASIS
LAST TEN FISCAL YEARS**

(Dollars in Thousands)

		<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenues — By Source						
Taxes..... [2]	\$	14,569,104	\$ 13,817,577	\$ 13,287,609	\$ 12,177,605	\$ 11,390,198
Federal funds.....		7,253,282	6,297,196	5,983,003	5,857,680	5,192,921
Local funds.....		511,350	469,539	462,879	427,306	469,023
Investment earnings..... [1] [4]		500,854	529,028	575,901	454,678	290,536
Interest earnings on loans.....		5,356	6,665	5,676	4,280	1,361
Sales and services.....		94,751	92,237	84,087	76,130	82,511
Sale, rental and lease of property.....		25,059	26,913	26,321	24,738	23,641
Fees, licenses, fines, and settlements.....		1,046,042	895,892	826,491	814,690	793,622
Contributions, gifts and grants.....		79,554	71,787	61,189	31,805	21,512
Miscellaneous.....		147,816	172,103	148,794	182,247	141,647
Total revenues.....	\$	<u>24,233,168</u>	<u>22,378,937</u>	<u>21,461,950</u>	<u>20,051,159</u>	<u>18,406,972</u>

Expenditures — By Function						
Current:						
General government..... [1]	\$	1,229,513	\$ 1,039,855	\$ 1,115,763	\$ 921,406	\$ 769,518
Education..... [1]		6,674,757	6,253,838	5,416,486	4,775,741	4,499,257
Health and human services..... [1] [3]		8,411,025	7,665,461	7,300,262	6,822,624	6,244,976
Economic development..... [1]		428,819	370,124	321,613	294,787	261,340
Environment and natural resources..... [1] [3]		371,238	354,025	332,803	668,402	576,272
Public safety, corrections, and regulation..... [1]		1,999,894	1,670,703	1,578,985	1,613,757	1,331,964
Transportation..... [1]		2,598,605	2,508,886	2,384,455	2,205,494	1,908,076
Agriculture..... [1]		143,936	72,562	68,573	65,421	63,174
Retiree tax judgements.....		440,000	399,000	400,000	—	—
Capital outlay.....		159,241	182,793	203,605	147,194	173,118
Debt service.....		264,877	227,630	170,039	131,249	150,471
Total expenditures.....	\$	<u>22,721,905</u>	<u>20,744,877</u>	<u>19,292,584</u>	<u>17,646,075</u>	<u>15,978,166</u>

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

**Major Revenues by Source
1991 - 2000**

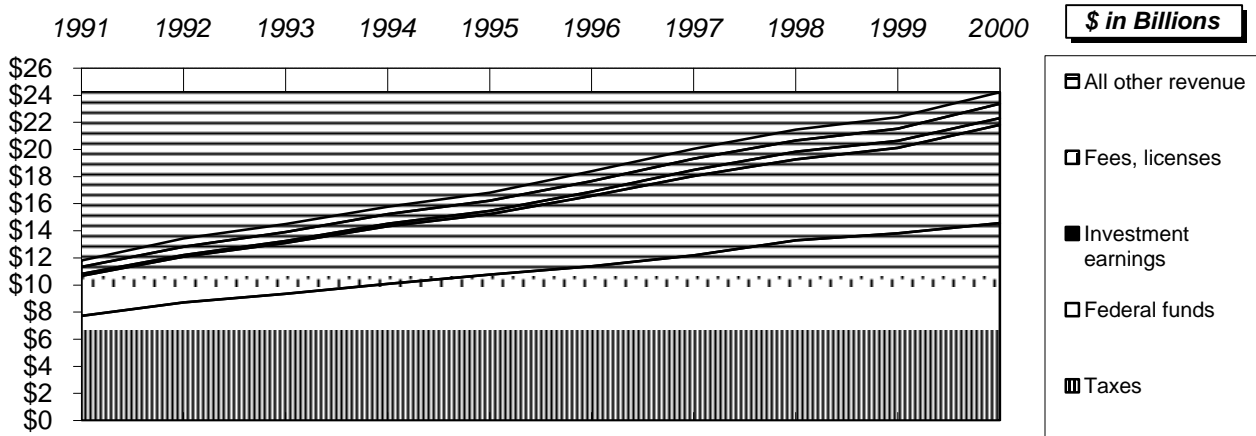


Table 1

1995	1994	1993	1992	1991
\$ 10,773,352	\$ 10,084,671	\$ 9,347,575	\$ 8,703,484	\$ 7,730,054
4,458,959	4,243,091	3,757,961	3,382,683	2,940,213
325,613	299,297	269,545	234,428	203,171
245,388	183,574	145,771	120,891	144,823
121	38	—	—	—
46,686	74,210	32,195	33,263	54,197
13,888	9,396	7,467	6,787	6,817
749,277	713,941	662,007	621,241	529,746
38,012	28,135	155,488	266,435	143,434
169,276	141,421	118,755	69,389	52,808
<u>\$ 16,820,572</u>	<u>\$ 15,777,774</u>	<u>\$ 14,496,764</u>	<u>\$ 13,438,601</u>	<u>\$ 11,805,263</u>
\$ 787,164	\$ 735,973	\$ 825,507	\$ 786,729	\$ 755,810
4,441,966	4,144,633	4,429,381	4,188,854	4,135,288
5,211,388	4,519,194	4,090,775	3,824,635	3,311,811
273,101	261,623	261,142	242,870	244,198
591,007	538,574	458,041	391,342	355,282
1,209,576	1,099,081	973,708	903,543	868,227
1,871,233	1,724,551	1,569,932	1,449,123	1,401,607
62,257	59,552	59,997	57,316	56,472
—	—	—	—	—
167,249	127,275	77,528	119,343	131,565
141,031	123,376	124,314	114,928	106,692
<u>\$ 14,755,972</u>	<u>\$ 13,333,832</u>	<u>\$ 12,870,325</u>	<u>\$ 12,078,683</u>	<u>\$ 11,366,952</u>

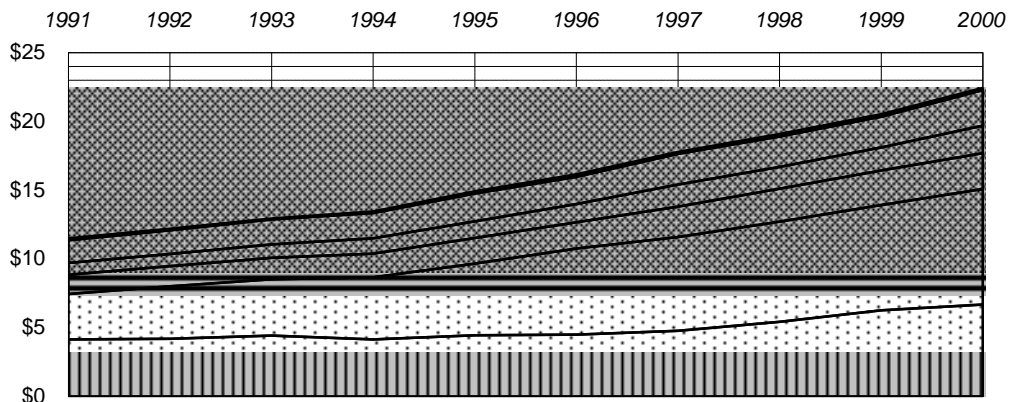
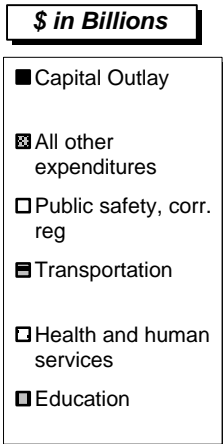
[1] Fiscal years prior to 1997 do not reflect the implementation of GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*. The impact of GASB Statement 28 is to gross-up investment earnings by the amount of fees charged for securities lending and to increase current expenditures in the amount of fees charged.

[2] Fiscal years prior to 1995 do not reflect the implementation of GASB Statement No. 22, *Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds*.

[3] In fiscal years prior to 1998, health expenditures were included in the environment, health and natural resources expenditure function. In the 1998 fiscal year, health expenditures were shifted and are now reflected in the health and human services function.

[4] Fiscal years prior to 1998 do not reflect the implementation of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Major Expenditures by Function 1991 - 2000



SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND
GAAP BASIS
LAST TEN FISCAL YEARS

(Dollars in Thousands)

	2000	1999	1998	1997
TAX REVENUES				
Individual income tax..... [2]	\$ 7,097,514	\$ 6,586,153	\$ 6,124,709	\$ 5,454,571
Corporate income tax..... [2]	989,280	920,583	999,759	869,717
Sales and use tax..... [2]	3,361,189	3,342,157	3,272,774	3,134,877
Franchise tax.....	557,544	567,497	567,869	534,622
Beverage tax.....	193,003	182,970	155,352	151,064
Insurance tax.....	273,367	291,202	283,828	259,286
Piped natural gas.....	52,025	—	—	—
Intangible tax.....	20	31	217	—
Inheritance tax.....	162,997	163,608	144,203	132,195
Soft drink tax.....	144	11,463	22,338	30,980
Tobacco products tax.....	43,104	44,694	47,304	46,797
License tax.....	42,595	27,202	38,209	41,280
Real estate conveyance tax.....	—	1,215	894	1,064
Gift tax.....	25,084	19,243	20,722	12,566
Other taxes.....	10,292	10,973	1,501	1,516
Total tax revenues.....	12,808,158	12,168,991	11,679,679	10,670,535
NON-TAX REVENUES				
Federal Funds:				
Departmental revenues.....	6,156,189	5,361,839	5,174,406	5,169,286
Local Funds:				
Departmental revenues.....	482,387	436,609	436,347	403,145
Investment Earnings:				
Income from General Fund investments..... [3]	204,083	248,657	252,162	224,260
Railroad dividends.....	—	—	—	—
Departmental revenues..... [1]	119,311	116,947	195,370	115,979
Other investment earnings.....	251	81	137	241
	323,645	365,685	447,669	340,480
Sales and Services:				
Departmental revenues.....	69,793	70,036	67,214	58,744
Other non-tax revenues.....	276	350	319	—
	70,069	70,386	67,533	58,744
Sale, Rental and Lease of Property:				
Proceeds from sale, rental and lease of property.....	1,035	786	1,811	1,342
Departmental revenues.....	7,218	5,773	4,255	4,651
	8,253	6,559	6,066	5,993
Fees, Licenses and Fines:				
Court fines and fees.....	97,808	99,986	93,252	99,819
Secretary of State service fees.....	24,255	20,099	19,257	17,344
Banking and investment fees.....	4,029	4,332	3,031	3,337
Self insurer fees (Industrial Commission).....	6,360	4,128	3,556	3,460
Gasoline and oil inspection fees.....	—	—	—	—
Environment and Natural Resources - use fees.....	—	—	—	—
Probation supervision fees.....	10,605	11,166	11,778	10,859
Elections filing fees.....	313	23	276	19
Department of Insurance fees.....	18,433	18,205	1,096	6,001
DWI service and restoration fees.....	5,703	5,936	6,050	5,949
Departmental revenues.....	38,300	110,664	103,296	104,002
Other non-tax revenues.....	3,868	2,629	3,082	4,056
	209,674	277,168	244,674	254,846
Contributions, Gifts and Grants:				
Departmental revenues.....	15,452	17,511	13,205	14,145
Other non-tax revenues.....	2	101	1	—
	15,454	17,612	13,206	14,145
Miscellaneous:				
Local sales and use tax administration.....	10,973	10,293	10,060	9,178
Sales tax refunds.....	15,514	10,406	10,936	13,301
Departmental revenues.....	108,555	130,518	115,529	151,906
Other non-tax revenue.....	866	844	744	455
	135,908	152,061	137,269	174,840
Total non-tax revenues.....	7,401,579	6,687,919	6,527,170	6,421,479
Total Revenues.....	\$ 20,209,737	\$ 18,856,910	\$ 18,206,849	\$ 17,092,014

Table 2

1996	1995	1994	1993	1992	1991
\$ 4,975,387	\$ 4,617,197	\$ 4,289,162	\$ 3,992,538	\$ 3,650,313	\$ 3,508,173
878,028	833,135	737,125	710,665	643,901	493,448
2,947,537	2,701,114	2,585,642	2,363,745	2,215,318	1,680,758
495,008	457,952	438,779	423,623	407,362	374,017
138,653	170,033	161,578	159,049	159,116	152,938
242,188	235,455	219,847	211,110	191,531	193,241
—	—	—	—	—	—
11,509	128,608	127,088	120,599	112,168	92,500
113,416	109,883	106,530	89,626	87,674	76,781
39,619	36,176	38,124	35,087	32,289	30,099
46,394	44,936	39,700	43,373	41,392	15,238
44,962	53,431	50,975	27,641	29,932	31,131
19,510	16,349	18,046	15,742	10,952	8,247
11,043	8,592	13,150	13,555	7,248	7,675
1,388	1,421	955	856	1,288	1,141
<u>9,964,642</u>	<u>9,414,282</u>	<u>8,826,701</u>	<u>8,207,209</u>	<u>7,590,484</u>	<u>6,665,387</u>
<u>4,613,915</u>	<u>3,780,032</u>	<u>3,595,033</u>	<u>3,206,169</u>	<u>2,902,873</u>	<u>2,511,804</u>
<u>445,443</u>	<u>299,156</u>	<u>270,873</u>	<u>237,329</u>	<u>204,414</u>	<u>179,887</u>
202,277	163,783	121,776	77,911	56,900	75,171
—	96	96	96	96	128
11,070	7,923	7,214	11,080	9,676	6,008
249	221	70	61	94	221
<u>213,596</u>	<u>172,023</u>	<u>129,156</u>	<u>89,148</u>	<u>66,766</u>	<u>81,528</u>
63,345	24,414	44,503	2,276	48,771	48,361
—	—	—	—	—	—
<u>63,345</u>	<u>24,414</u>	<u>44,503</u>	<u>2,276</u>	<u>48,771</u>	<u>48,361</u>
1,265	499	7	190	38	214
4,404	7,288	6,880	6,671	6,209	6,019
<u>5,669</u>	<u>7,787</u>	<u>6,887</u>	<u>6,861</u>	<u>6,247</u>	<u>6,233</u>
90,456	88,023	81,529	76,601	71,430	63,149
14,838	12,911	11,209	9,720	8,338	7,293
3,432	3,760	3,513	3,234	2,960	2,821
3,038	2,768	2,785	2,894	2,398	2,538
—	—	1,251	1,176	1,357	1,427
—	—	—	—	1,521	656
10,002	9,690	8,604	8,770	8,412	7,524
287	17	252	13	218	14
961	936	14,834	11,173	6,987	5,336
5,426	5,342	4,818	4,597	4,582	4,588
101,364	106,360	99,502	109,902	98,896	72,572
5,005	5,415	7,265	4,002	2,297	1,592
<u>234,809</u>	<u>235,222</u>	<u>235,562</u>	<u>232,082</u>	<u>209,396</u>	<u>169,510</u>
8,574	4,065	3,319	129,430	238,350	50,550
—	—	—	—	—	—
<u>8,574</u>	<u>4,065</u>	<u>3,319</u>	<u>129,430</u>	<u>238,350</u>	<u>50,550</u>
8,661	6,669	5,623	5,920	6,243	5,819
11,585	14,217	12,166	10,811	11,193	—
112,430	129,224	104,072	75,074	22,359	24,241
471	1,534	598	1,313	2,445	387
<u>133,147</u>	<u>151,644</u>	<u>122,459</u>	<u>93,118</u>	<u>42,240</u>	<u>30,447</u>
<u>5,718,498</u>	<u>4,674,343</u>	<u>4,407,792</u>	<u>3,996,413</u>	<u>3,719,057</u>	<u>3,078,320</u>
<u>\$ 15,683,140</u>	<u>\$ 14,088,625</u>	<u>\$ 13,234,493</u>	<u>\$ 12,203,622</u>	<u>\$ 11,309,541</u>	<u>\$ 9,743,707</u>

[1] Fiscal years prior to 1997 do not reflect the implementation of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. The impact of GASB Statement No. 28 is to gross-up investment earnings by the amount of fees charged for securities lending and to increase current expenditures in the amount of fees charged. Prior to 1997, securities lending fees are netted against securities lending income.

[2] Fiscal years prior to 1995 do not reflect the implementation of GASB Statement No. 22, *Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds*.

[3] Fiscal years prior to 1998 do not reflect the implementation of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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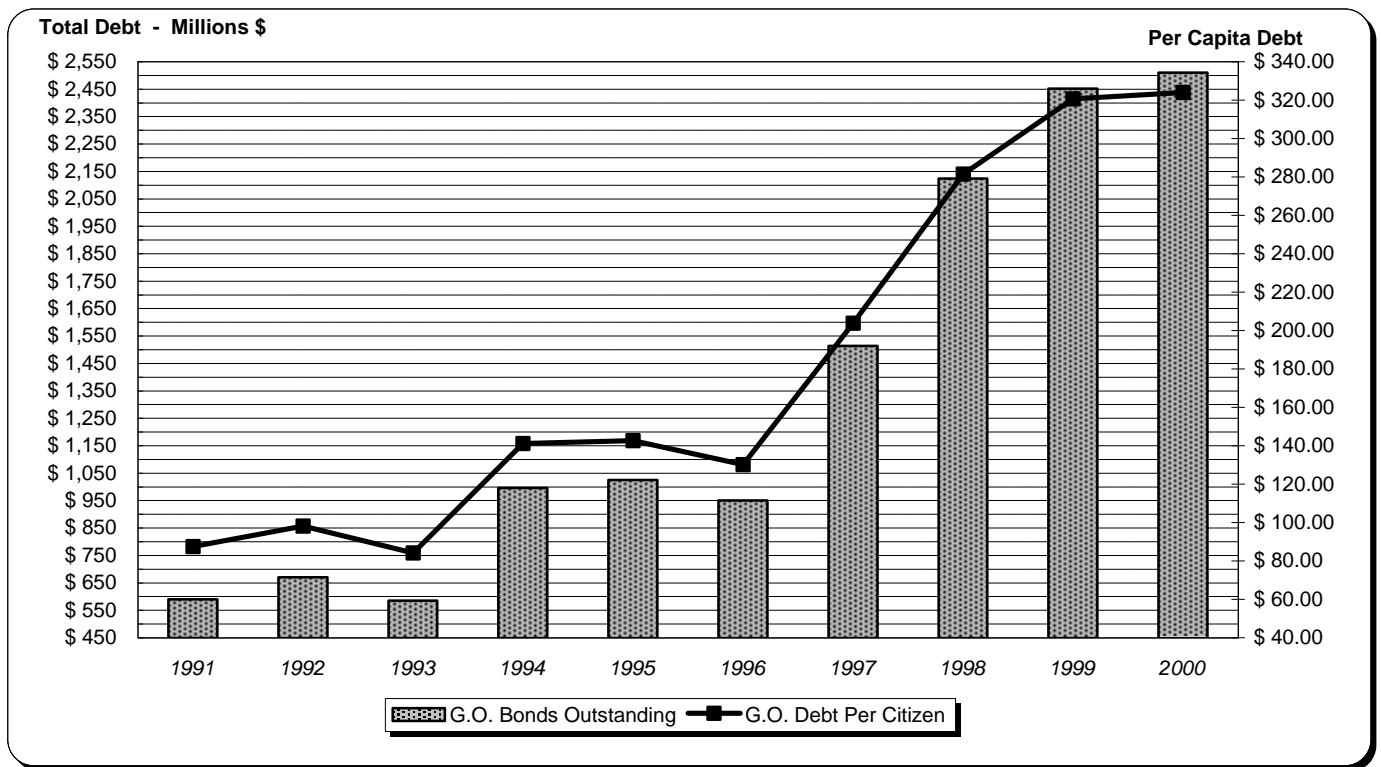
GENERAL OBLIGATION BONDS DEBT RATIOS

For the Fiscal Years 1991-2000

Table 3

Fiscal Year Ended June 30	General Obligation Debt Per Capita			Ratio of Annual Debt Service To General Expenditures		
	N.C. Population	General Obligation Bonds Outstanding	G.O. Debt per Citizen	Debt Service (Principal and Interest)	Total General Expenditures	Ratio
2000	7,746,306	\$ 2,509,986,000	\$ 324.02	\$ 264,877,000	\$ 22,721,905,000	1.17%
1999	7,647,934	\$ 2,451,973,000	\$ 320.61	\$ 227,630,000	\$ 20,744,877,000	1.10%
1998	7,545,735	\$ 2,123,944,000	\$ 281.48	\$ 170,039,000	\$ 19,292,584,000	0.88%
1997	7,428,579	\$ 1,514,477,000	\$ 203.87	\$ 131,249,000	\$ 17,646,075,000	0.74%
1996	7,307,565	\$ 951,082,000	\$ 130.15	\$ 150,741,000	\$ 15,978,166,000	0.94%
1995	7,185,327	\$ 1,025,167,000	\$ 142.68	\$ 141,031,000	\$ 14,755,972,000	0.96%
1994	7,060,881	\$ 996,365,000	\$ 141.11	\$ 123,376,000	\$ 13,333,832,000	0.93%
1993	6,947,216	\$ 584,905,000	\$ 84.19	\$ 124,314,000	\$ 12,870,325,000	0.97%
1992	6,831,780	\$ 670,380,000	\$ 98.13	\$ 114,928,000	\$ 12,078,683,000	0.95%
1991	6,748,027	\$ 590,014,000	\$ 87.44	\$ 106,692,000	\$ 11,366,952,000	0.94%

Total General Obligation Debt and Long-Term Debt Per Capita



Source: Population - U.S. Department of Commerce, Bureau of the Census, and N.C. Office of State Planning

REVENUE BOND COVERAGE

For the Fiscal Years 1991-2000

(Dollars in Thousands)

Fiscal Year Ended June 30	Gross Revenues [1]	Direct Operating Expenses [1]	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage [2]
				Principal	Interest	Total	

PRIMARY GOVERNMENT:**General Long-Term Obligations Account Group**

2000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—
1994 [3]	—	—	—	—	—	—	—
1993	371	—	371	750	72	822	.45
1992	380	—	380	750	143	893	.43
1991	365	—	365	650	203	853	.43

Enterprise Funds

2000	—	—	—	—	—	—	—
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996 [4]	—	—	—	—	—	—	—
1995	1,963	1,981	(18)	111	—	111	(.16)
1994	1,947	1,845	102	104	14	118	.86
1993	1,856	1,759	97	96	21	117	.83
1992	1,923	1,799	124	88	34	122	1.02
1991	1,884	1,611	273	81	44	125	2.18

[1] - Represents actual fund receipts and disbursements securing the applicable bonds.

[2] - Ideally, the coverage number would be 1.00 or higher, indicating that Net Revenues Available exceeds Debt Service Requirements.

[3] - These bonds were paid in full in 1993.

[4] - These bonds were paid in full in 1995.

Table 4

Fiscal Year Ended June 30	Gross Revenues [1]	Direct Operating Expenses [1]	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage [2]
				Principal	Interest	Total	
<u>COMPONENT UNITS:</u>							
<u>Proprietary Funds</u>							
2000	\$ 192,278	\$ 15,755	\$176,523	\$16,460	\$96,208	\$112,668	1.57
1999	172,096	14,298	157,798	13,435	87,468	100,903	1.56
1998	186,851	12,414	174,437	11,910	73,743	85,653	2.04
1997	105,826	10,624	95,202	10,696	69,182	79,878	1.19
1996	79,683	3,293	76,390	20,520	52,347	72,867	1.05
1995	78,248	3,972	74,276	12,487	53,662	66,149	1.12
1994	94,369	4,355	90,014	17,692	61,772	79,464	1.13
1993	103,150	7,979	95,171	19,967	66,133	86,100	1.11
1992	110,774	8,416	102,358	18,010	68,499	86,509	1.18
1991	115,880	6,542	109,338	18,481	70,796	89,277	1.22
<u>University Funds</u>							
2000	1,240,158	1,038,597	201,561	37,000	49,207	86,207	2.34
1999	1,201,023	1,000,455	200,568	30,268	47,719	77,987	2.57
1998	1,154,699	881,246	273,453	27,348	44,050	71,398	3.83
1997	1,089,199	880,855	208,344	25,321	44,153	69,474	3.00
1996	999,627	772,898	226,729	22,883	36,777	59,660	3.80
1995	938,473	725,744	212,729	19,089	38,211	57,300	3.71
1994	851,517	693,747	157,770	15,488	30,687	46,175	3.42
1993	776,645	647,323	129,322	14,853	31,401	46,254	2.80
1992	395,337	326,494	68,843	9,612	24,022	33,634	2.05
1991	244,610	201,762	42,848	6,905	19,797	26,702	1.60

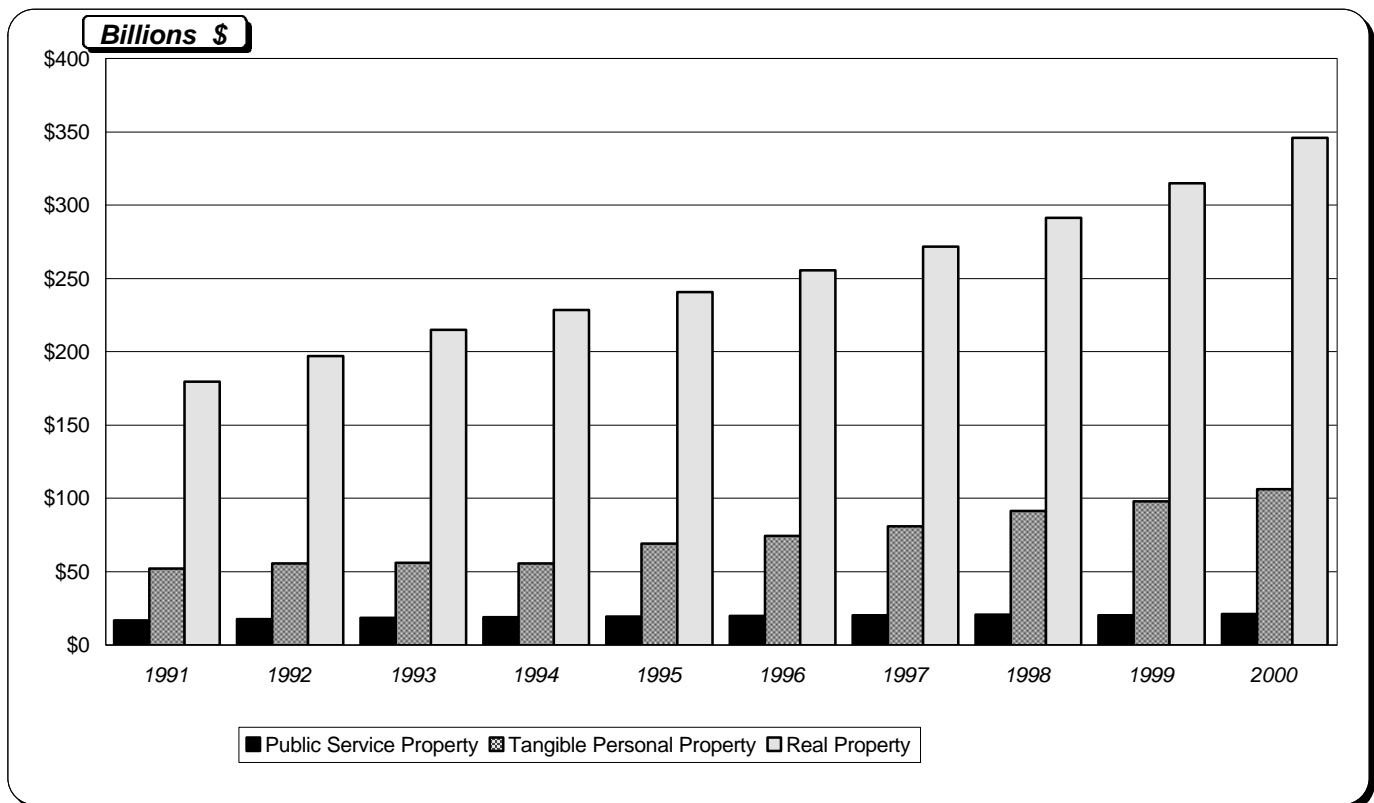
**STATEWIDE ASSESSED PROPERTY VALUES
REAL PROPERTY, TANGIBLE PERSONAL PROPERTY AND
PUBLIC SERVICE COMPANIES**

For the Fiscal Years 1991-2000

Table 5

For the Years	Assessed Value at January 1			
	Real Property	Personal Property	Public Service Companies	Total
2000	\$345,704,989,165	\$105,984,739,896	\$ 20,874,178,731	\$472,563,907,792
1999	314,949,315,291	97,834,758,018	20,244,024,631	433,028,097,940
1998	291,205,137,584	91,392,925,590	20,442,713,966	403,040,777,140
1997	271,764,063,900	80,698,570,134	20,194,521,863	372,657,155,897
1996	255,260,809,402	74,021,864,531	19,847,155,764	349,129,829,697
1995	240,636,714,460	68,881,737,558	19,193,111,331	328,711,563,349
1994	228,535,500,422	55,446,883,320	18,847,015,529	302,829,399,271
1993	214,688,830,054	55,808,723,703	18,210,749,564	288,708,303,321
1992	197,102,056,813	55,347,001,285	17,272,796,848	269,721,854,946
1991	179,691,593,712	51,895,857,703	16,651,387,521	248,238,838,936

**Statewide Assessed Property Values
Ten-Year Comparison**



Source: Compiled by the Department of Revenue from reports submitted by counties and municipalities.

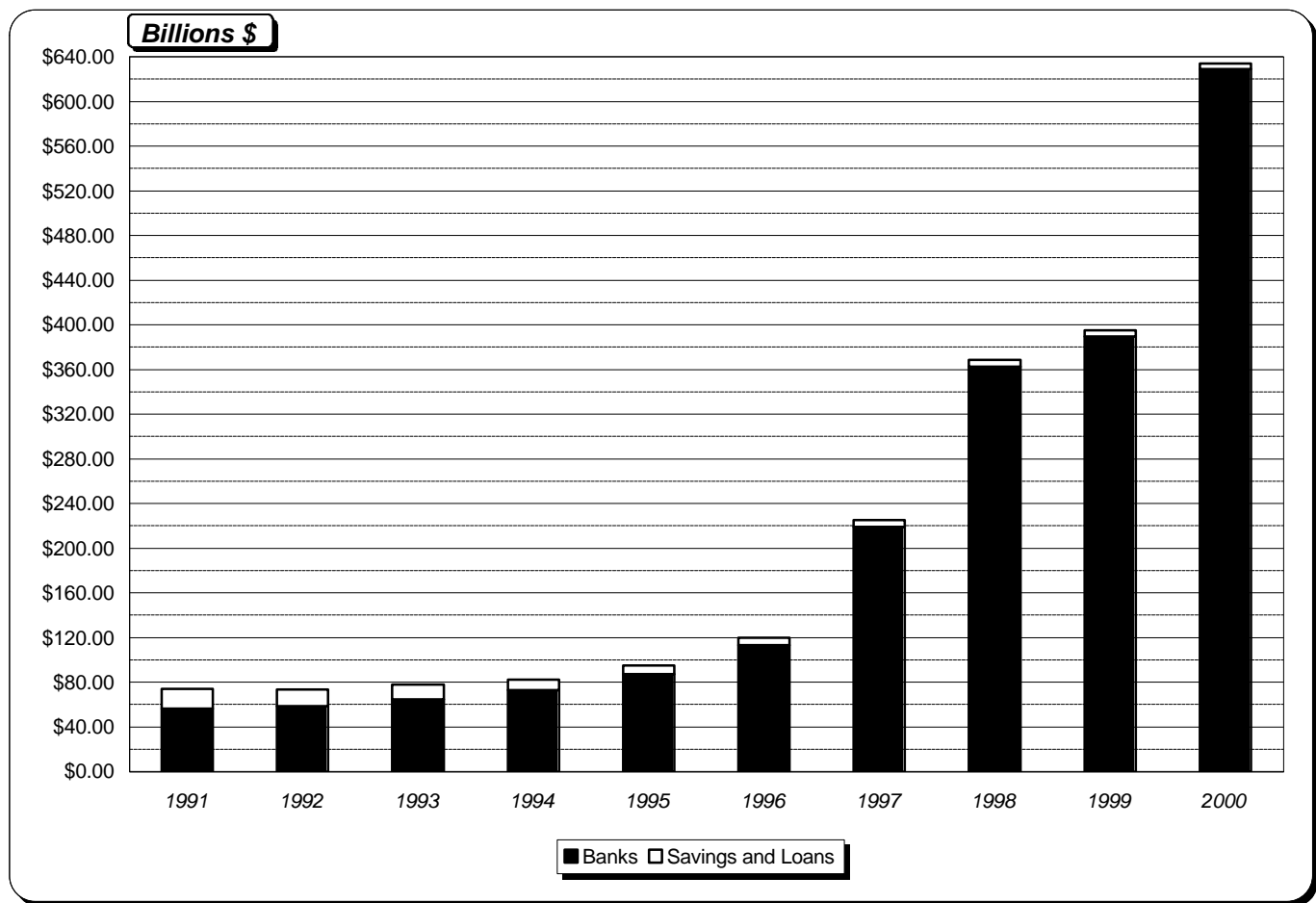
**SCHEDULE OF BANK AND SAVINGS AND LOAN DEPOSITS
OF FINANCIAL INSTITUTIONS LOCATED IN NORTH CAROLINA**

For the Years 1991-2000
(Dollars in Thousands)

Table 6

As of June 30	Banks			As of Dec. 31	Savings and Loan Associations		
	Chartered		Total Deposits		Chartered		Total Deposits
	State	National			State	Federal	
2000	\$54,700,398	\$ 574,253,124 [1]	\$628,953,522	1999	\$ 2,951,811	\$ 2,294,505	\$ 5,246,316
1999	47,171,364	342,200,834 [1]	389,372,198	1998	3,283,086	2,408,829	5,691,915
1998	42,834,645	319,721,396 [1]	362,556,041	1997	3,440,310	2,663,747	6,104,057
1997	40,258,721	178,556,322 [1]	218,815,043	1996	3,459,159	2,636,338	6,095,497
1996	37,637,624	75,499,983	113,137,607	1995	3,949,870	2,898,852	6,848,722
1995	34,336,993	52,883,449	87,220,442	1994	4,910,234	2,827,642	7,737,876
1994	26,087,820	47,009,485	73,097,305	1993	5,633,380	3,584,274	9,217,654
1993	23,310,981	41,231,385	64,542,366	1992	5,670,725	7,788,016	13,458,741
1992	21,213,128	37,261,674	58,474,802	1991	4,878,921	10,253,169	15,132,090
1991	19,561,303	36,969,025	56,530,328	1990	5,327,335	11,822,779	17,150,114

**Deposits in N.C. Banks and Savings and Loan Associations
Last Ten Years**



[1] The large increases in deposits in national banks are due to the consolidation of separate out-of-state charters of North Carolina banks into one charter in North Carolina due to a change in Federal law, and the acquisition and consolidation of banks and individual branches in other states by North Carolina banks.

Source: North Carolina Department of Commerce

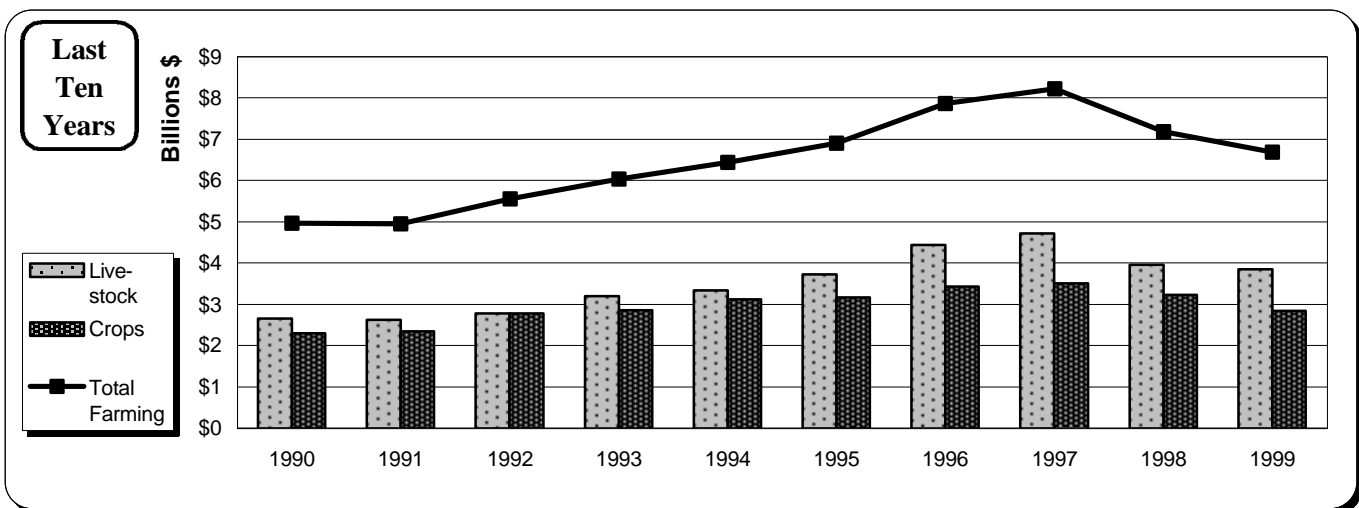
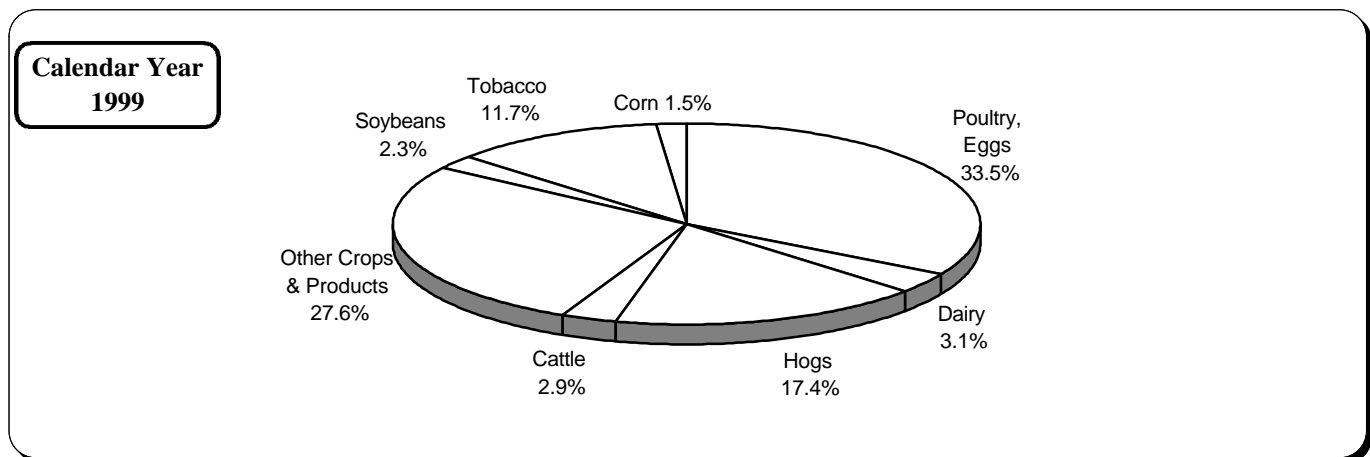
CASH RECEIPTS FROM FARMING BY COMMODITIES

For the Calendar Years 1990-1999
(Dollars in Millions)

Table 7

Year	Livestock and Related Products						Crops					Total
	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	All Livestock and Crops
1999	\$2,237.8	\$208.3	\$1,160.3	\$192.6	\$51.1	\$3,850.1	\$784.2	\$154.2	\$102.2	\$1,796.4	\$2,837.0	\$6,687.1
1998	2,225.0	208.0	1,323.1	154.0	46.2	3,956.3	976.7	174.7	112.4	1,969.5	3,233.3	7,189.6
1997	2,210.3	193.6	2,058.8	213.1	47.5	4,723.3	1,193.2	270.9	196.6	1,843.3	3,504.0	8,227.3
1996	2,250.6	214.3	1,766.5	153.2	56.9	4,441.5	1,021.5	229.3	298.0	1,879.0	3,427.8	7,869.3
1995	2,053.9	189.9	1,279.3	146.9	61.0	3,731.0	1,048.5	157.4	165.7	1,795.4	3,167.0	6,898.0
1994	1,911.5	210.5	982.8	166.7	57.5	3,329.0	942.9	217.3	149.0	1,804.6	3,113.8	6,442.8
1993	1,822.1	211.2	930.0	172.0	54.6	3,189.9	1,029.9	195.5	139.2	1,486.6	2,851.2	6,041.1
1992	1,612.3	218.8	730.8	168.6	53.7	2,784.2	1,049.5	203.5	178.0	1,346.3	2,777.3	5,561.5
1991	1,516.9	204.2	665.3	177.7	53.1	2,617.2	1,054.7	193.4	166.3	924.2	2,338.6	4,955.8
1990	1,577.3	234.8	615.1	178.7	52.9	2,658.8	1,051.6	205.0	193.2	853.9	2,303.7	4,962.5

CASH RECEIPTS FROM FARMING



Source: North Carolina Crop and Livestock Reporting Service (Data for 2000 is not available.)

MAJOR PRIVATE EMPLOYERS IN NORTH CAROLINA*Table 8*

The State's largest major private employers, ranked in order according to first quarter 1999 preliminary employment averages, are listed:

2000 Rank	Employer	Type of Business
1	Wal-Mart Stores, Inc.	Discount store chain
2	Food Lion, Inc.	Supermarket chain
3	Duke University	Private university, medical center
4	IBM Corporation	Computers, telecommunications
5	First Union National Bank	Banking and financial services
6	Harris Teeter, Inc.	Supermarket chain
7	Manpower Temporary Services	Temporary employment agency
8	US Air, Inc.	Airline
9	Belk, Inc.	Department store chain
10	Lowe's Companies, Inc.	Hardware chain
11	K-Mart Corporation	Discount store chain
12	Duke Power Co., Inc.	Electric utility
13	Sara Lee Corporation	Hosiery, baked goods, apparel
14	Winn-Dixie Raleigh, Inc.	Supermarket chain
15	Northern Telecom Inc.	Telecommunications
16	United Parcel Service, Inc.	Delivery services
17	B B & T Corporation	Banking and financial services
18	Burlington Industries, Inc.	Textiles
19	Bank of America (NationsBank)	Banking and financial services
20	RJR Nabisco, Inc.	Tobacco, food products
21	Broyhill Furniture Industries	Furniture manufacturing
22	Freightliner Corporation	Truck manufacturing
23	Bigelow Packaging Division	Packaging manufacturing
24	Winn-Dixie Charlotte, Inc.	Supermarket chain
25	Sears Roebuck and Company	Department store chain

Source: North Carolina Employment Security Commission

SCHEDULE OF DEMOGRAPHIC DATA

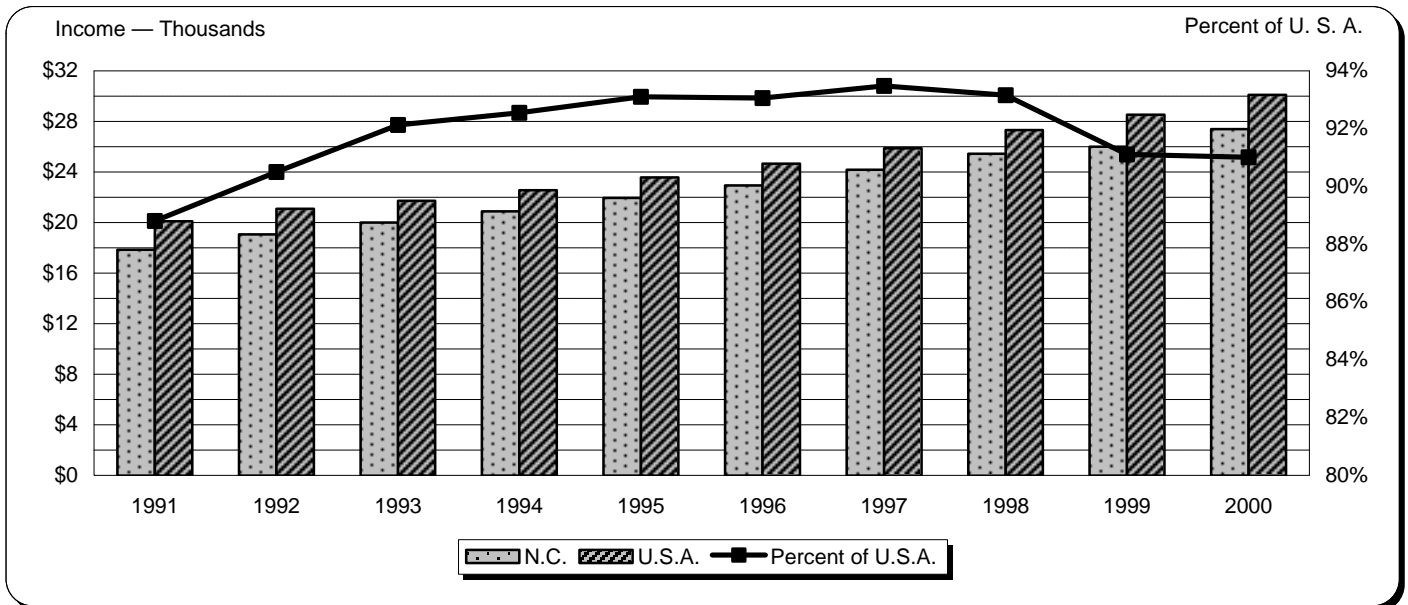
For the Years 1950, 1960, 1970, 1980, 1990-2000

Year	Population [1]				Per Capita Income [2]		
	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.
2000	275,130,000 [B]	0.89%	7,746,306 [C]	1.29%	\$ 30,091 [E]	\$ 27,387 [F]	91.01%
1999	272,691,000 [B]	0.90%	7,647,934 [D]	1.35%	28,542	26,003	91.10%
1998	270,248,000 [B]	0.92%	7,545,735 [D]	1.58%	27,322	25,454	93.16%
1997	267,784,000 [B]	0.96%	7,428,579 [D]	1.66%	25,874	24,188	93.48%
1996	265,229,000 [B]	0.92%	7,307,565 [D]	1.70%	24,651	22,940	93.06%
1995	262,803,000 [B]	0.95%	7,185,327 [D]	1.76%	23,562	21,938	93.11%
1994	260,327,000 [B]	0.99%	7,060,881 [D]	1.64%	22,565	20,883	92.55%
1993	257,783,000 [B]	1.08%	6,947,216 [D]	1.69%	21,709	20,001	92.13%
1992	255,030,000 [B]	1.14%	6,831,780 [D]	1.24%	21,077	19,074	90.50%
1991	252,153,000 [B]	1.35%	6,748,027 [D]	1.74%	20,099	17,849	88.81%
1990	248,791,000 [A]	1.76%	6,632,448 [A]	2.30%	19,588	17,295	88.29%
1980	226,546,000 [A]	11.13%	5,880,095 [A]	15.65%	10,062	8,090	80.40%
1970	203,849,000 [A]	13.26%	5,084,411 [A]	11.59%	4,072	3,255	79.94%
1960	179,979,000 [A]	18.51%	4,556,155 [A]	12.17%	2,254	1,615	71.65%
1950	151,868,000 [A]		4,061,929 [A]		1,496	1,037	69.32%

[A] - U.S. Census count - April 1 (1950 - 1990)
 [B] - U.S. Census estimates - July 1 (1991 - 2000)
 [C] - N.C. Office of State Planning projection - July 1, 2000 based on April 1990 census population of 6,632,448

[D] - N.C. Office of State Planning estimate - July 1, 1991 - 1999, based on April, 1990 census population of 6,632,448
 [E] - Standard & Poor's DRI estimate
 [F] - N.C. Office of State Budget and Management estimate

**Per Capita Income
 North Carolina Compared to United States
 1991 to 2000**



Sources: [1] Population
 [2] Per Capita Income
 [3] Labor Force Data - As of June 30

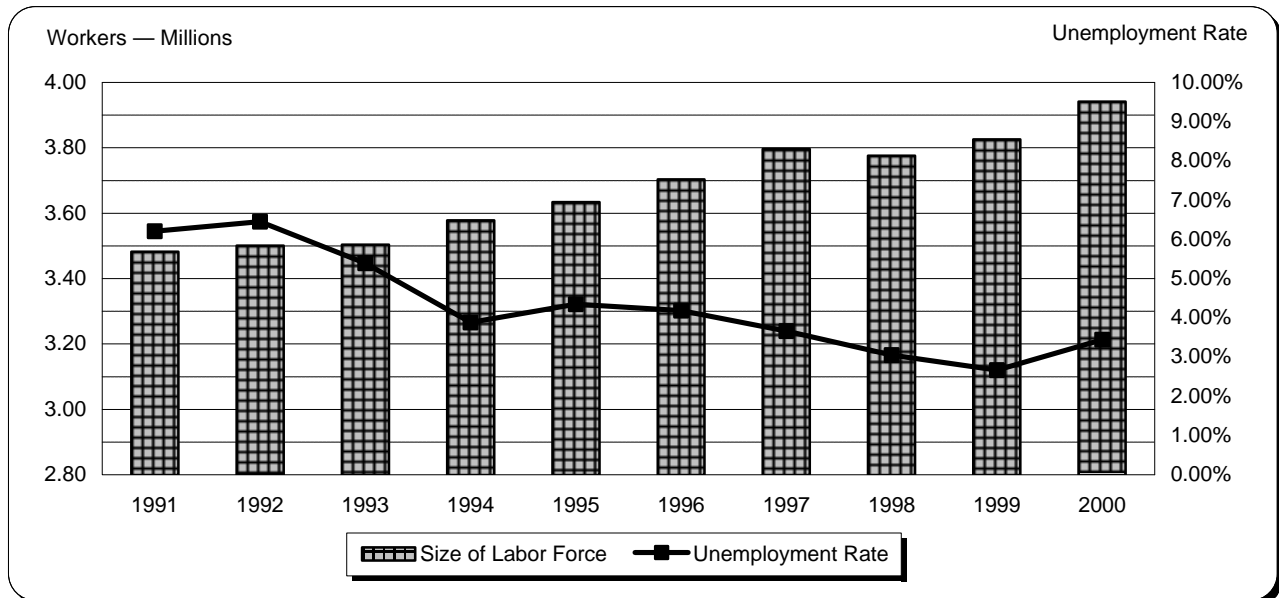
U.S. Department of Commerce, Bureau of the Census
 N.C. Office of State Planning
 U.S. Department of Commerce, Bureau of Economic Analysis
 N.C. Office of State Budget and Management
 N.C. Employment Security Commission

Table 9

North Carolina Civilian Labor Force Data [3]					North Carolina - Other Data		
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	[4] Public School Enrollment	[5] Motor Vehicles Registered	[6] Residential Construction Authorized
2000	3,941,000	3,805,300	135,700	3.44%	1,249,922	7,112,610	N/A
1999	3,826,000	3,724,100	101,900	2.66%	1,229,929	6,911,814	105,117
1998	3,776,300	3,661,000	115,300	3.05%	1,208,368	6,428,104	103,432
1997	3,796,900	3,657,800	139,100	3.66%	1,183,335	6,392,269	93,609
1996	3,703,000	3,548,000	155,000	4.19%	1,156,885	6,303,969	89,485
1995	3,634,000	3,476,000	158,000	4.35%	1,131,090	6,167,660	85,215
1994	3,578,000	3,439,000	139,000	3.88%	1,108,625	5,889,588	114,468
1993	3,504,000	3,315,000	189,000	5.39%	1,093,683	5,870,252	54,788
1992	3,501,000	3,275,000	226,000	6.46%	1,080,223	5,695,022	49,482
1991	3,482,000	3,266,000	216,000	6.20%	1,070,297	5,681,199	38,743
1990	3,471,000	3,339,000	132,000	3.80%	1,065,399	5,600,050	30,471
1980	2,759,197	2,607,925	151,272	5.48%	1,191,342	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	1,217,024	3,218,292	N/A
1960	1,680,442	1,605,478	74,964	4.46%	1,105,412	1,907,988	N/A
1950	1,512,924	1,463,352	49,572	3.28%	893,745	1,171,228	N/A

N/A = Data not available.

**Civilian Labor Force Trends
With Unemployment Percentages
1991 to 2000**



Sources: [4] Public School Enrollment - Final Average Daily Membership for the School Year September 1 to June 30
 [5] Motor Vehicle Registrations - For the Fiscal Year Ended June 30
 [6] Residential Housing Permits - Information not available for the Six Months Ended June 30, 2000; Prior Years for the Calendar Years Ended December 31

N.C. Department of Public Instruction
 N.C. Division of Motor Vehicles
 N.C. Department of Labor

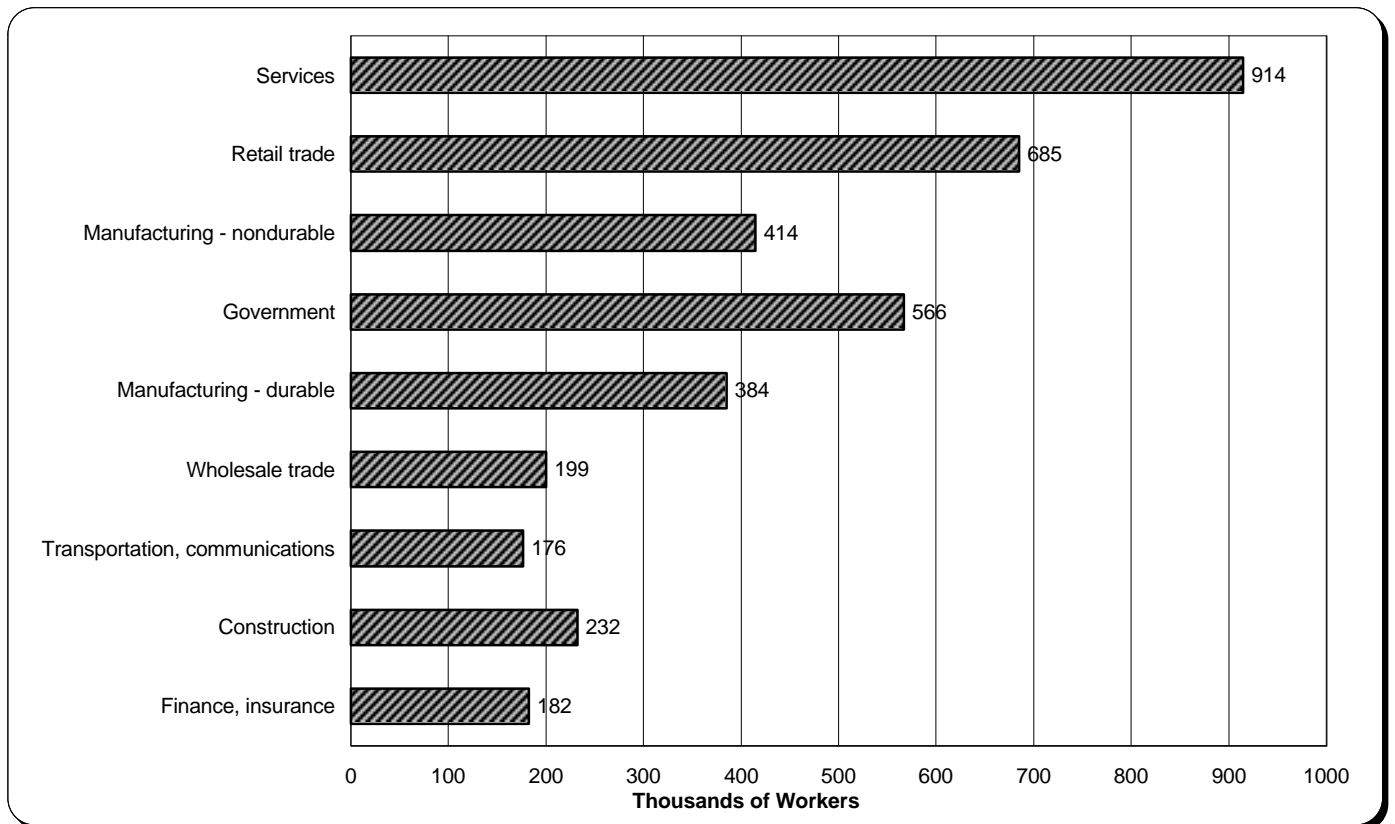
**TEN LARGEST NON-AGRICULTURAL INDUSTRIES
BY NUMBER OF EMPLOYEES**

For the Calendar Years 1990-1999
(Expressed in Thousands of Workers)

Table 10

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Manufacturing:										
Nondurable goods.....	414.0	431.7	452.5	407.9	478.4	496.1	496.8	497.7	494.9	501.2
Durable goods.....	384.2	389.7	387.0	435.6	379.0	372.0	357.5	341.4	337.5	343.9
Retail trade.....	684.5	676.4	671.5	652.6	643.5	610.4	585.8	564.9	549.7	554.6
Services.....	913.9	870.7	825.9	784.0	729.0	687.6	655.4	612.7	566.6	555.5
Government.....	566.2	601.1	577.3	559.5	547.8	538.5	524.1	513.8	494.4	486.9
Contract construction.....	231.9	221.2	209.2	196.8	178.5	170.5	159.0	148.5	146.0	159.0
Wholesale trade.....	199.3	193.9	191.1	182.0	185.1	177.9	168.8	168.8	166.5	167.2
Transportation, communi- cations and public utilities..	175.9	172.2	171.1	167.8	165.1	162.1	157.5	153.5	151.5	150.3
Finance, insurance and real estate.....	181.6	179.3	167.2	157.1	146.9	143.2	137.8	133.3	132.4	132.1
Mining.....	3.9	4.0	4.0	3.8	3.7	3.6	3.4	3.4	4.9	5.1
Total Non-Agricultural Employment.....	3,755.4	3,740.2	3,656.8	3,547.1	3,457.0	3,361.9	3,246.1	3,138.0	3,044.4	3,055.8
Manufacturing.....	798.2	821.4	839.5	843.5	857.4	868.1	854.3	839.1	832.4	845.1
Non-Manufacturing.....	2,957.2	2,918.8	2,817.3	2,703.6	2,599.6	2,493.8	2,391.8	2,298.9	2,212.0	2,210.7

**Number of Employees by Industry - 1999
(Non-Agricultural)**



Source: North Carolina Employment Security Commission (Data for 2000 is not available)

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REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 1991 - 2000

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 reestimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year.
- (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, 1991 – 2000

Table 11

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.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1) Required contribution and investment revenue:										
Earned.....	\$ 6,513	\$ 6,386	\$ 6,805	\$ 6,573	\$ 6,749	\$ 7,180	\$ 7,099	\$ 8,354	\$ 6,343	\$ 6,687
Ceded.....	n/a	n/a	441	1,834	2,134	2,264	2,298	2,041	1,683	1,727
Net earned.....	6,513	6,386	6,364	4,739	4,615	4,916	4,801	6,313	4,660	4,960
2) Unallocated expenses	1,124	1,489	1,109	2,511	2,843	2,909	2,941	2,706	2,398	2,541
3) Estimated claims and expenses, end of policy year:										
Incurred.....	4,879	1,230	3,128	4,426	5,078	3,246	14,351	8,496	8,615	21,141
Ceded.....	—	—	—	—	359	—	6,862	700	357	—
Net incurred.....	4,879	1,230	3,128	4,426	4,719	3,246	7,489	7,796	8,258	21,141
4) Paid (cumulative) as of:										
End of policy year.....	3,499	781	1,468	2,741	3,790	2,061	9,595	2,044	4,077	13,158
One year later.....	4,937	1,092	3,221	4,348	5,107	3,723	13,129	4,193	5,931	
Two years later.....	4,970	1,141	3,295	4,429	5,242	3,742	13,803	4,297		
Three years later.....	4,975	1,151	3,295	4,437	5,246	3,744	13,810			
Four years later.....	4,975	1,151	3,295	4,440	5,246	3,760				
Five years later.....	4,975	1,151	3,295	4,440	5,246					
Six years later.....	4,975	1,151	3,295	4,440						
Seven years later.....	4,975	1,151	3,295							
Eight years later.....	4,975	1,151								
Nine years later.....	4,975									
5) Reestimated ceded claims and expenses.....	—	—	—	—	359	—	6,862	700	357	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	4,879	1,230	3,128	4,426	4,719	3,246	7,489	7,796	8,258	21,141
One year later.....	4,997	1,219	3,524	4,445	4,943	3,814	6,771	3,724	6,740	
Two years later.....	5,000	1,152	3,460	4,445	4,927	3,789	7,023	3,735		
Three years later.....	4,998	1,151	3,334	4,445	4,887	3,765	6,976			
Four years later.....	4,975	1,151	3,299	4,440	4,887	3,760				
Five years later.....	4,975	1,151	3,295	4,440	4,887					
Six years later.....	4,975	1,151	3,295	4,440						
Seven years later.....	4,975	1,151	3,295							
Eight years later.....	4,975	1,151								
Nine years later.....	4,975									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	96	(79)	167	14	168	514	(513)	(4,061)	(1,518)	—

n/a= not available

TOTAL NUMBER OF STATE GOVERNMENT PERMANENT POSITIONS FUNDED IN THE STATE BUDGET BY AGENCY

For the Fiscal Years 1991-2000

Table 12

State Agency	<i>Fiscal Years Ended June 30</i>									
	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Education:										
Public education [1]	133,531	130,525	127,578	123,027	116,695	113,123	108,649	108,539	106,847	107,077
Higher education.....	33,326	31,556	31,173	30,607	30,386	30,094	29,611	31,621	28,702	28,225
Community colleges.....	13,045	11,192	10,534	10,309	10,729	10,814	10,892	10,660	10,076	10,005
Total Education.....	179,902	173,273	169,285	163,943	157,810	154,031	149,152	150,820	145,625	145,307
% Annual growth.....	3.83%	2.36%	3.26%	3.89%	2.45%	3.27%	(1.11)%	3.57%	0.22%	
% Cumulative growth.....	23.81%	19.25%	16.50%	12.83%	8.60%	6.00%	2.65%	3.79%	0.22%	
All Other:										
Health and human services [2].....	18,640	18,606	19,724	18,373	18,373	18,191	17,753	17,159	17,008	17,155
% Annual growth.....	0.18%	(5.67)%	7.35%	0.00%	1.00%	2.47%	3.46%	0.89%	(0.86)%	
% Cumulative growth.....	8.66%	8.46%	14.98%	7.10%	7.10%	6.04%	3.49%	0.02%	(0.86)%	
Correction	19,217	18,796	19,774	19,099	18,879	17,890	13,592	13,336	13,176	12,426
% Annual growth.....	2.24%	(4.95)%	3.53%	1.17%	5.53%	31.62%	1.92%	1.21%	6.04%	
% Cumulative growth.....	54.65%	51.26%	59.13%	53.70%	51.93%	43.97%	9.38%	7.32%	6.04%	
Transportation.....	16,281	16,081	17,010	16,536	16,411	16,593	15,451	15,556	15,096	15,127
% Annual growth.....	1.24%	(5.46)%	2.87%	0.76%	(1.10)%	7.39%	(0.67)%	3.05%	(0.20)%	
% Cumulative growth.....	7.63%	6.31%	12.45%	9.31%	8.49%	9.69%	2.14%	2.84%	(0.20)%	
Judicial	5,438	5,337	5,486	5,124	4,978	5,002	4,915	4,628	4,471	4,474
% Annual growth.....	1.89%	(2.72)%	7.06%	2.93%	(0.48)%	1.77%	6.20%	3.51%	(0.07)%	
% Cumulative growth.....	21.55%	19.29%	22.62%	14.53%	11.27%	11.80%	9.86%	3.44%	(0.07)%	
Other.....	18,345	17,465	16,457	16,964	16,730	16,921	16,186	15,425	15,267	15,574
% Annual growth.....	5.04%	6.13%	(2.99)%	1.40%	(1.13)%	4.54%	4.93%	1.03%	(1.97)%	
% Cumulative growth.....	17.79%	12.14%	5.67%	8.93%	7.42%	8.65%	3.93%	(0.96)%	(1.97)%	
Total Positions.....	257,823	249,558	247,736	240,039	233,181	228,628	217,049	216,924	210,643	210,063

[1] This figure includes local educational agencies receiving funding by State appropriation for elementary and secondary school teachers.

[2] Due to departmental reorganizations, the positions for health services are included in the "Other" category in fiscal years prior to 1998. In the fiscal years prior to 1999 the positions for youth services are included in the "Health and human services" category. These positions are now included in the "Other" category.

Source: North Carolina Office of State Budget, Planning and Management

N.C. population (1000's)	7,746	7,648	7,546	7,429	7,308	7,185	7,061	6,947	6,832	6,748
Annual growth	1.28%	1.35%	1.57%	1.66%	1.71%	1.76%	1.64%	1.68%	1.24%	
Cumulative growth	14.79%	13.34%	11.83%	10.09%	8.30%	6.48%	4.64%	2.95%	1.24%	

SCHEDULE OF MISCELLANEOUS STATISTICS

As of June 30, 2000

Table 13

Adoption of State Constitution.....	1776, 1868, 1971
Form of government.....	Executive, Legislative, Judicial
Land area:	
Square miles.....	50,000
Acres.....	31,999,760
Miles of highway.....	78,083
State police protection:	
Number of stations.....	61
Number of state police.....	1,417
Higher Education:	
<i>Community colleges</i>	
Number of campuses.....	58
Number of students [average annual full time equivalent (FTE)]..	150,884
<i>State universities</i>	
Number of campuses.....	16
Number of regular term students (FTE).....	136,057
Number of regular term teaching positions (FTE).....	9,701
Recreation:	
Number of State parks and other recreational areas.....	53
Area of State parks (acres).....	159,027
Area of State forests (acres).....	338,717

<i>Sources: Land area.....</i>	<i>Department of Environment and Natural Resources</i>
<i>Miles of highways.....</i>	<i>Department of Transportation</i>
<i>State police protection.....</i>	<i>Department of Crime Control and Public Safety</i>
<i>Higher education — community colleges.....</i>	<i>N.C. Community College System Office</i>
<i>Higher education — State universities.....</i>	<i>University of North Carolina - General Administration</i>
<i>Recreation.....</i>	<i>Department of Environment and Natural Resources Department of Agriculture and Consumer Services Department of Correction</i>

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North Carolina Office of the State Controller
1410 MAIL SERVICE CENTER
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NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED JUNE 30, 2000

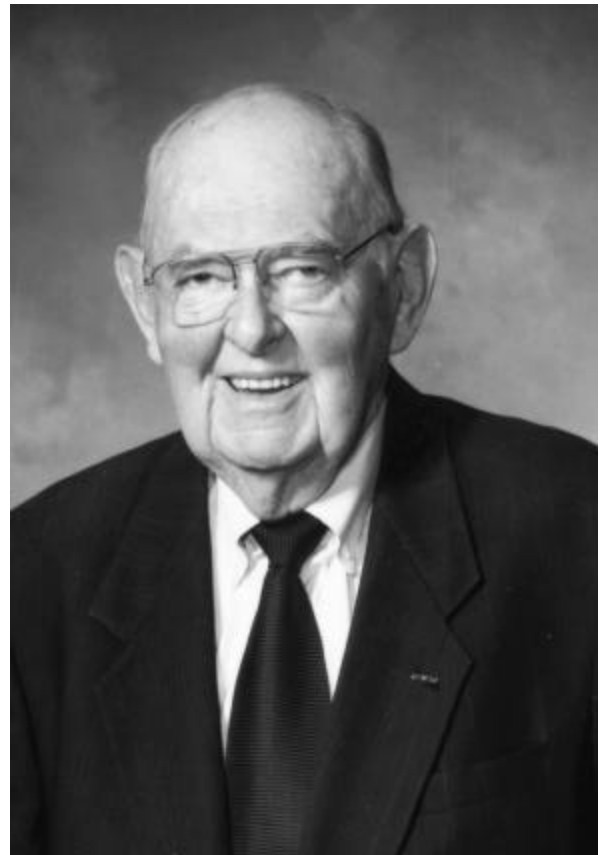
The State of North Carolina 2000 Comprehensive Annual Financial Report is dedicated to the Honorable Harlan E. Boyles for his 49½ years of public service to the State of North Carolina, as he retires after 24 years as State Treasurer, and the Honorable James A. Graham for his 44 years of public service to the State of North Carolina, as he retires after 36 years as Commissioner of Agriculture.

As one of the State's primary financial officials, Treasurer Boyles has worked to maintain the coveted triple-A credit rating. Treasurer Boyles has made significant contributions in the administration of the State's financial matters, local government finance and education during his tenure, and has served with great distinction as a steward of the State's investments and employee retirement systems.

Commissioner Graham has been dedicated to protecting, maintaining and enhancing the ability of agriculture to produce an adequate supply of food and fiber in North Carolina. He has been responsible for the enforcement of regulatory programs which protected and promoted the health, safety and welfare of all the citizens of North Carolina. Commissioner Graham has worked hard to get support to expand farmers markets across the State. There are now five successful State operated markets in North Carolina located in Raleigh, Asheville, Charlotte, Greensboro, and Lumberton.



*The Honorable Harlan E. Boyles
State Treasurer*



*The Honorable James A. Graham
Commissioner of Agriculture*