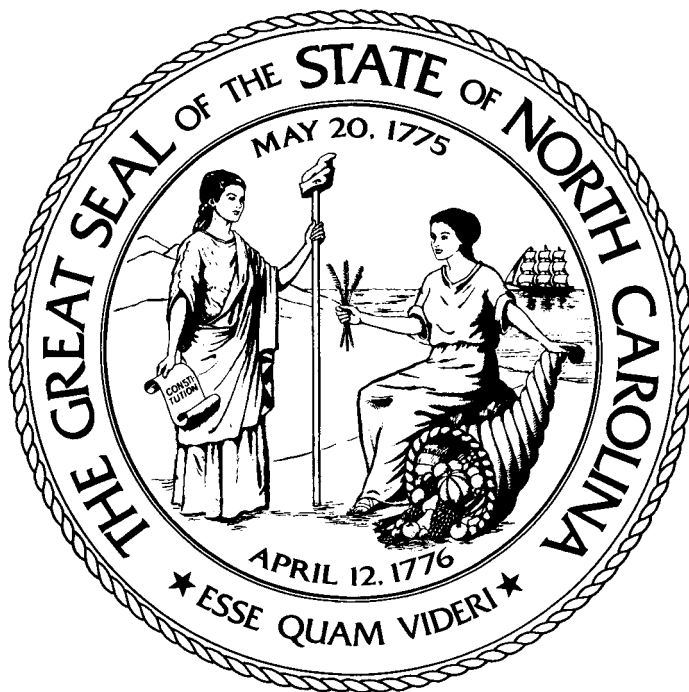


NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2002



MICHAEL F. EASLEY
GOVERNOR

ROBERT L. POWELL
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

<http://www.osc.state.nc.us>

This report was prepared by the
Statewide Accounting Division of the North Carolina Office of the State Controller.

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



MICHAEL F. EASLEY
Governor of North Carolina

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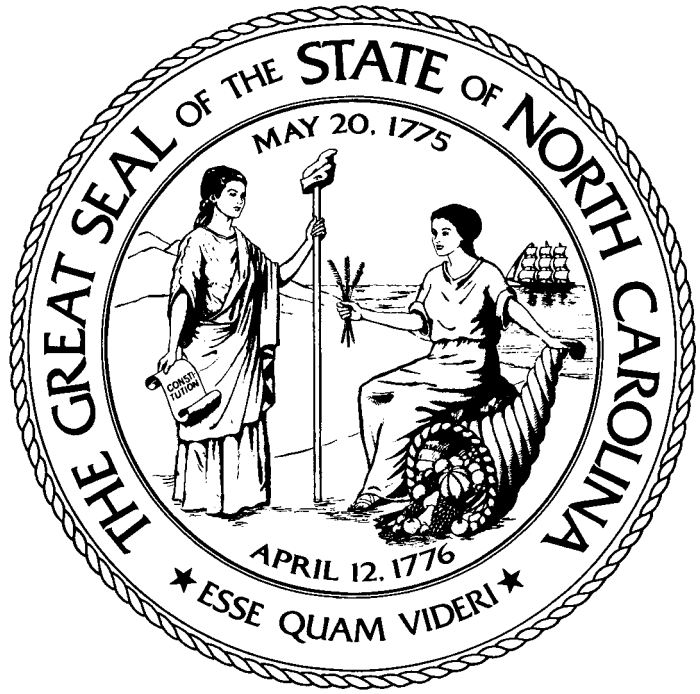
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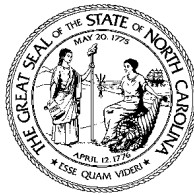
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INTRODUCTORY SECTION



State of North Carolina Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

It is our pleasure to furnish you with the 2002 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, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 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 in the United States of America (GAAP). Except for exhibits and notes clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

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 management discussion and analysis, the basic financial statements (government-wide financial statements, fund financial statements, and notes), other required supplementary information, the combining and individual fund 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.

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.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of management discussion and analysis (MD&A). This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

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LOCATION
3512 Bush Street
Raleigh, NC

An Equal Opportunity/Affirmative Action/Americans With Disabilities Employer

Profile of the Government

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System; the State's community colleges; Golden LEAF, North Carolina Housing Finance Agency, and North Carolina State Education Assistance Authority. 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.

Budgetary Control

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund 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, the Office of State Budget and Management (OSBM) may approve executive changes to the legal budget. This results in the "Final Budget" presented in the required supplementary information.

Economic Condition and Outlook

National Situation

The primary factors affecting the nation's economy during the period ending June 30, 2002 were the terrorist attacks of September 11 and the continuing impact of the stock market crash.

During the summer of 2001, economists were noting that the economy seemed to be recovering from the slowdown that had begun the past winter. This seemingly optimistic viewpoint was supported by a number of indicators including the monthly survey of purchasing managers, falling energy prices, federal tax cuts robust housing refinancing activity, and stable consumer spending.

The optimism vanished on September 11. The first impact of the terrorist actions was a sharp drop in consumer spending during the latter part of September as consumer confidence dropped by 20 percentage points. When retail activity slowed, manufacturers discovered they had excess inventory and began paring production. This led to fewer hours for workers and eventually forced layoffs. The loss of income led workers to cut back on spending even more and the downward spiral typical of a recession had begun.

Compounding the problem was the prolonged pullback in capital spending. The trigger for this decision by executives was the fact that the 2000-2002 economy was characterized by the steepest decline in corporate profits in over five decades. This factor, coupled with the crash of technology and telecommunications stocks beginning in March 2000, led companies to reduce spending on new facilities and equipment, even in the face of very favorable interest rates.

The recovery from the events of September 11 has been the most sluggish in decades. The first stage of the turnaround, beginning last November, was fueled by a combination of additional interest rate cuts, rapid money supply growth, and aggressive fiscal policy (tax cuts, federal disaster assistance). In addition, the level of business inventories fell by a record amount during the fourth quarter of 2001, setting the stage for a ramping up of production.

Around March of this year, the recovery began to experience what some economists are calling a "soft spot." This loss of momentum was similar to the temporary slowdown experienced in late 1991, just six months after the beginning of the recovery from the Gulf War. In fact, the 1991-93 recovery stalled out three times before a more permanent acceleration took place in mid-1993.

At the end of the 2001-02 fiscal year economic indicators were starting to show signs of improvement. Examples included unemployment claims, retail activity, money supply growth, and record refinancing activity due to the lowest mortgage rates in 40 years. This led many economists to forecast 3-4% real (inflation-adjusted) economic growth for the second half of the calendar year.

There is reason for concern about the fragility of the recovery even though positive signs are popping up every day. First is the continued weakness in equity prices, especially for NASDAQ stocks (down 76% from their 2000 peak). This has devastated the value of 401(k) balances and other sources of savings, causing a drop in consumer confidence. This pattern is the converse of the 1995-99 experience, when skyrocketing stock prices provided fuel for a consumer spending binge through the "wealth effect."

In addition, investors and consumers have been shaken by the accounting fraud and the potential military action against Iraq. A final concern is the mountain of debt taken on by consumers and businesses during the favorable impact of the free-spending 1990s. To date, the debt overhang for individuals has not been a problem due to the impact of low mortgage rates on the demand for housing and incentive-driven demand for vehicles. Once refinancing slows and the bubble in housing prices breaks, the underpinning for the unusually stable spending levels during this recession may evaporate.

The final issue has to do with the prolonged decline in business investment. Many manufacturers continue to experience excess capacity and add new facilities until demand improves. In addition, they are reluctant to rehire laid off workers, preferring to extend the workweek of the employees and bring in temporary workers. Until a major turnaround in stock prices occurs or we get additional federal monetary or fiscal stimulus, we think that the national recovery will continue to be sluggish. The good news is that the combination of depressed inventories and historically low interest rates should prevent the economy from going back into a recession.

State Prospects

One of the primary characteristics of the 2001 recession was the impact on the manufacturing sector. This is important to North Carolina because 18% of nonagricultural employment is in manufacturing in our state versus 12% nationally. A more important measure might be the share of gross state product tied to manufacturing: around 23% in North Carolina versus 17% for the United States.

The decline in manufacturing jobs did not begin with the 2001 recession. Data compiled by the Employment Security Commission show that manufacturing experienced a fairly rapid recovery from the 1990-91 recession, with job growth of 2.6% in 1993. In fact, the “boom and bust” nature of manufacturing is one reason why the state’s economy grew 33% faster than the national experience following the 1981-82 recession and 45% faster following the Gulf War downturn. In fact, North Carolina was the fifth fastest growing state during the 1992-94 period.

Manufacturing employment began a steady decline in mid-1995 as the national economy experienced a mild slowdown following the Fed rate hikes in 1994. The rate of decline began to accelerate in February 2001 and peaked at an 8.5% year-over-year rate in late 2001. Particularly hard hit were the textile and apparel sectors, dropping over 15% annually by the spring of 2001.

There are some signs that the state’s economy has begun to improve. For one thing, the unemployment rate has dropped from 6.9% in April to 6.0% in October and we have seen improvement in the unemployment claims numbers. State sales tax receipts during the quarter ending September 30 were up 1.7% over the same quarter last year and increased 2.3% during the second calendar quarter. This compares to -2.0% for the first quarter and -3.5% for the final quarter of 2001. Unit sales of cars and light trucks rose 2.9% in May and June this year. Finally, real estate conveyance tax collections, levied on a “percent of value” basis, continue to benefit from favorable mortgage rates.

Even with the recent improvements, the State is budgeting on the basis of a continued sluggish recovery. This would be very different from the explosive growth after the last two recessions. One reason is the continued weakness of tech stock prices. As the state has diversified away from the traditional manufacturing industries (textiles, apparel, furniture, and tobacco) to electronics and other technology-oriented companies, we have become more vulnerable to problems in the new sectors.

A classic example is the experience of the Catawba Valley region (Hickory). During the late-1990s, this area had an unemployment rate as low as 1.5% due to the explosive growth of fiber optic manufacturing. Now, the unemployment rate in this county is 9.4%, one of the highest rates in the state. We are concerned that it may take some time for the nation’s telecommunications companies to work down excess inventory.

In addition, it is not clear how areas affected by the displacement of workers in traditional industries will recover. The prevailing view of many local officials is that not only are the jobs lost in recent years the textile, apparel, and furniture sectors gone forever but the shift away from U.S. production is spreading to other types of manufacturing operations.

Key Economic Forecast Variables
(% Change Unless Noted)

	Fiscal Year 2001-2002	Fiscal Year 2002-2003
	<u>Actual</u>	<u>Budgeted</u>
<u>National</u>		
Real Economic Growth*	1.9%	1.4%
Real Consumer Spending*	3.0%	2.1%
Industrial Production	-4.0%	0.6%
Nominal Personal Income	3.3%	1.9%
Consumer Price Index	1.8%	2.3%
Short-Term Interest Rates	2.3%	1.8%
Pre-Tax Profits (Calendar Yr.)	-17.9%	-7.5%
<u>North Carolina</u>		
Total Employment	-1.1%	-1.4%
Manufacturing Employment	-7.1%	-4.5%
Unemployment Rate	6.3%	7.4%
Personal Income	1.3%	1.8%

*Adjusted for inflation

*— Economic analysis prepared by David Crotts
Fiscal Research Division
North Carolina General Assembly
November 15, 2002*

Issues and Observations

During fiscal year 2002, the Governor, the General Assembly, and the departments and agencies of State government worked to address key issues facing State government and the citizens of North Carolina.

Fiscal Accountability and Reporting

While this report presents the financial condition of the State on a GAAP basis, it is important to note some of the budget and program realities that contributed to our current condition. With the adoption of the General Fund budget for fiscal year ended June 30, 2003, North Carolina will have experienced its third straight year in which spending needs exceeded recurring revenues. This problem has been increased by the economic downturn experienced nationally and in North Carolina. The increase in spending needs is attributed to enrollment growth in the public schools and higher education institutions along with continued increased costs in the health and human services areas such as Medicaid and children services. The result is that North Carolina has spent more money than it has realized in the General Fund during the last four consecutive years.

In order to meet the constitutional requirement of a balanced budget for the General Fund, the Governor has exercised his constitutional powers through the enactment of Executive Orders to control spending and to identify resources to meet spending requirements. Among these resources are the Highway Trust Fund, the Tobacco Trust Fund, agency special funds, and reductions to employer contributions to some of the State retirement systems. State agencies and institutions have been operating under Executive Orders since February 2001. The current Executive Order allows spending at an average of 96.5% of the authorized General Fund budget for fiscal year 2003.

Because of the budget shortfalls, the need to use State reserves, and the inability to replenish reserves, the result has been an overall reduction in the net worth of the General Fund (GAAP basis) component of the State budget. In the last three years, the unreserved balance has gradually declined to its current level of negative \$575 million for the fiscal year ended June 30, 2002. The Savings Reserve Account balance was used to balance the budget in fiscal year 2001, and the General Assembly authorized new funds to replenish that reserve in fiscal year 2002. But the Savings Reserve Account balance again was required to manage the budget shortfall for fiscal year 2002. As of June 30, 2002, the Savings Reserve had a zero balance.

For fiscal year 2003 through December 11, \$215.6 million has been set aside in the Governor's Executive Order Reserve and is available to manage any potential budget shortfall that may occur. It is important to note, however, that some of these funds will be needed for the continued recovery of eastern North Carolina from the aftermath of Hurricane Floyd. This Reserve coupled with spending restrictions and zero economic revenue growth are the tools the Governor is using to manage the 2003 budget.

In August 2002, Moody's investors service advised North Carolina of a downgrade in its credit from AAA to Aa1 representing the first time since 1960 that North Carolina had less than AAA credit. Moody's advised that the North Carolina budget had been under too much financial strain for too long and that the North Carolina economy was not sufficient to retain our rating at this time. While the rating service praised the strength of executive powers available to insure a balanced budget, they cited lack of structural balance, a weakened GAAP balance sheet, and the continued reliance on non-recurring resources as major factors in the downgrade. They made specific note of the reversal of GAAP balances that have reversed from positives to negatives in a relatively short period of time.

Challenges continue to exist for State government financial and program managers as we move further into this decade. The Governor will propose his 2003-05 budget to the 2003 Session of the General Assembly and many of the fiscal issues will continue into this legislative

session. More discussion of the financial issues of North Carolina can be found in the Management's Discussion and Analysis (MD&A) section of this document.

Financial Information

The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund, the Highway Fund and the Highway Trust Fund.

Pension and Other Post- employment Benefits

Pensions. The State contributes to the Teachers' and State Employees' Retirement System, 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, 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.

The retirement systems experienced a total return from investments of -4.34% for the one-year period, a return of 0.62% for the three-year period and a return of 5.97% for the five-year period, ended June 30, 2002. These returns are among the better results for public pension plans in the United States, and reflect the conservative asset allocation and attention to investment quality that have guided the plans investment policy. Recent reports indicate that the North Carolina Retirement System investment performance (all pension plans under management) was among the top 12% of all public plans for the last 12 months, and among the top 9% for the past five years for the period ended September 30, 2002.

The Teachers' and State Employees' Retirement System (TSERS), the largest of the pension trust funds, continued to be fully funded, based on the December 31, 2001 actuarial valuation. Specifically, the TSERS was funded at 111.6%, with the actuarial value of assets of \$42.1 billion exceeding the actuarial accrued liability of \$37.7 billion by \$4.4 billion at December 31, 2001. Employer contributions to the TSERS decreased by \$110.3 million, or 35.7% from the prior fiscal year. Investment balances declined by \$2.8 billion, or 6.3% from the prior fiscal year, with a net investment income loss of \$1.9 billion representing a decline in net earnings of \$811 million, or 75.3% from the prior year. The TSERS experienced a \$130.8 million increase in benefit payments to retirees, an increase of 7.7% from fiscal year 2001.

Employee and Retiree Health Insurance. The State Health Plan (reported as a component unit for fiscal year 2001) provides comprehensive major medical care for employees and retirees of the State and its participating component units, and it allows for optional coverage of employee and retirees' 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 proprietary 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. Coverage is also extended to certain individuals as an other postemployment benefit. 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 \$5 million.

As of July 1, 2001, an estimated \$240 to \$300 million of cost savings for the State Health Plan were implemented in the form of increased insurance premiums, reduction of benefits to employees and dependents, and in the form of cuts in payments to providers. The State Health Plan pays 100% of the health insurance premium for employees and retirees, but employees and

retirees must pay for optional family or dependent coverage. Employer contributions account for 80% of State Health Plan funding. Effective October 1, 2001, the insurance premium for dependent coverage rose by 30%. Net assets increased from a negative \$159.7 million at June 30, 2001 to a negative \$99.4 million at June 30, 2002, an increase (deficit decrease) of \$60.3 million, or 37.7%, with premium revenues for fiscal year 2002 rising to \$1.27 billion, an increase of \$331.1 million, or 35.3%. For fiscal year 2002, claims and benefits totaled \$1.18 billion, an increase of \$54.5 million, or 4.8%.

Historically, the State's health benefits package has been a key component of an overall compensation package enabling the State to hire and retain quality personnel.

Debt Administration

The State's general obligation bonds are rated Aa1 by Moody's, AAA by Standard & Poors, and AAA by Fitch. During the fiscal year, Moody's Investors Services downgraded the State of North Carolina's general obligation rating to Aa1, from AAA. According to Moody's, the primary reasons for the downgrade were the State's continued budget pressure, reliance on non-recurring revenues, and weakened balance sheet. Also, Moody's commented that the task of restoring structural budget balance and rebuilding reserves faces political and economic obstacles.

The 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. 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 2002, 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 5.38%.

Risk Management

The State maintains self-insurance programs for employee health; general liability; medical malpractice; workers' compensation; and automobile, fire and other property losses. The State limits its risk for general liability; medical malpractice; and automobile fire and other property losses by purchasing private insurance for losses in excess of deductibles. See Note 12 of the Notes to the Financial Statements for a full description of the State's risk management program.

Other Information

Independent Audit

In compliance with State statute, an annual financial audit of the State reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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, 2001. 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,



Robert L. Powell
State Controller

December 12, 2002

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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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.



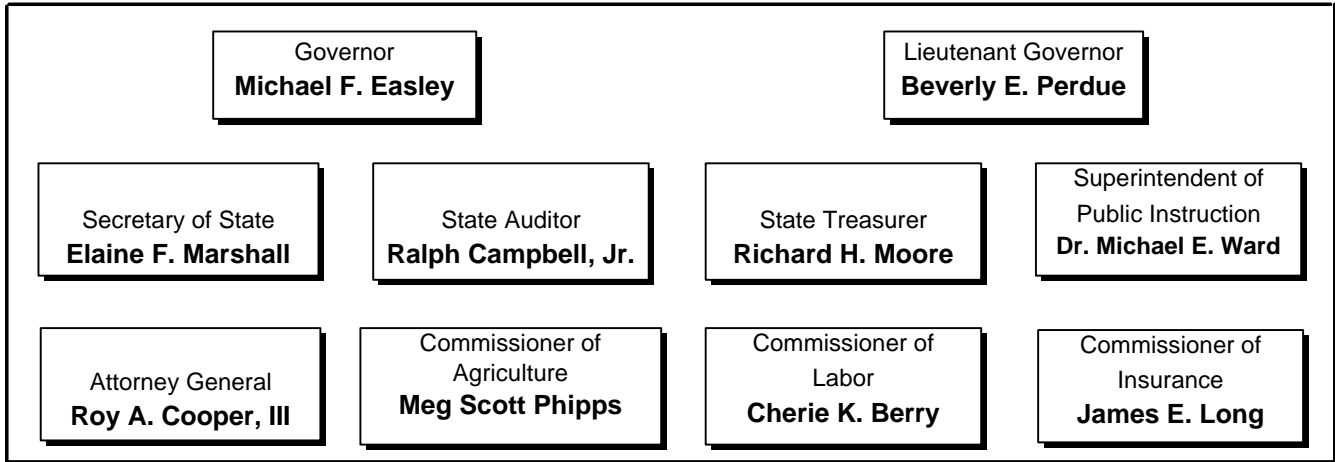
Imelda Aruete
President

Jeffrey L. Esser
Executive Director

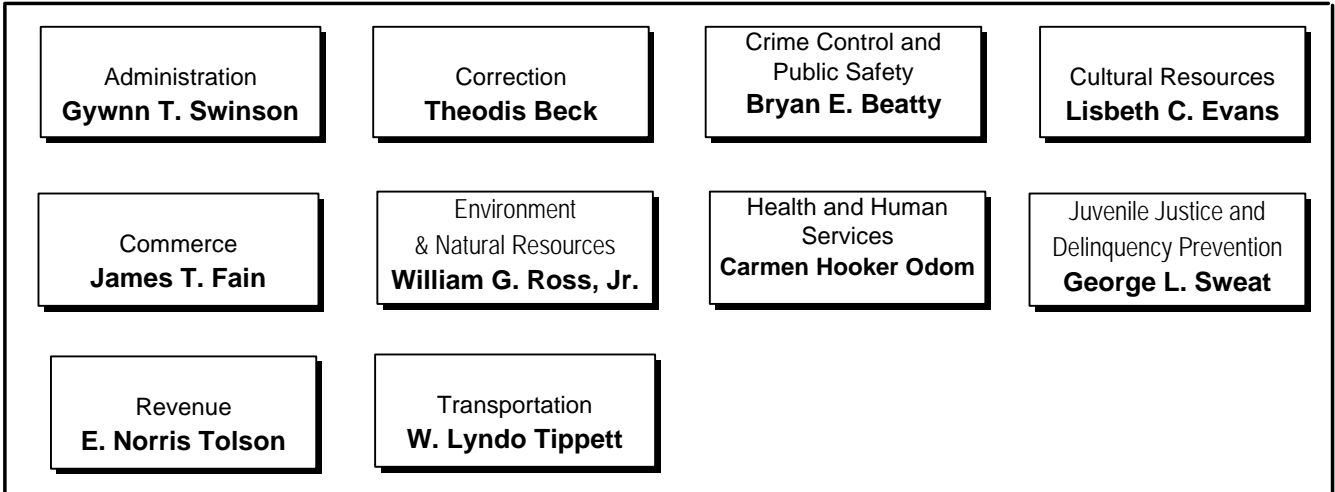
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



Cabinet Secretaries — Appointed by the Governor



Appointed by Governor, confirmed by Legislature

Office of the
 State Controller
Robert L. Powell
State Controller

Appointed by State Board of Community Colleges

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

Appointed by University Board of Governors

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 Tony Rand</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 N. Leo Daughtry</p>
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North Carolina Supreme Court

Chief Justice
I. Beverly Lake, Jr.

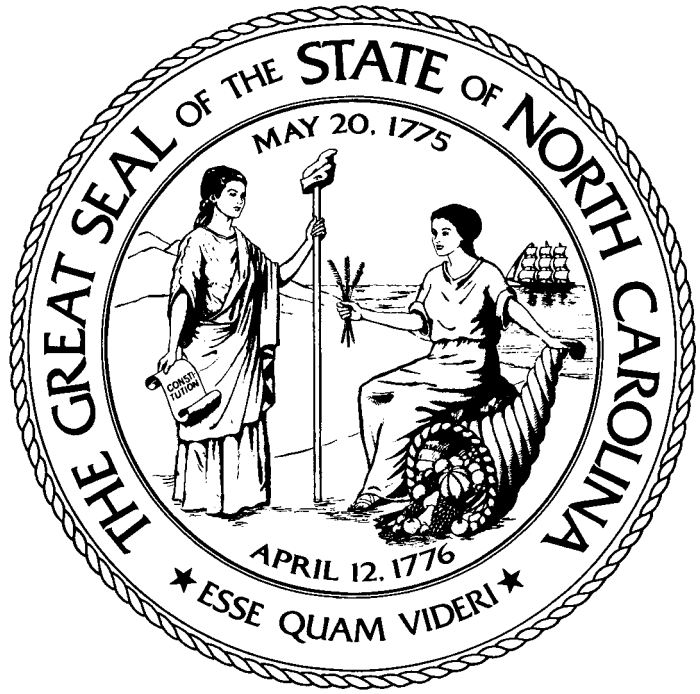
Associate Justices
G. K. Butterfield, Jr.
Robert H. Edmunds, Jr.
Robert F. Orr
Mark D. Martin
Sarah Parker
George L. Wainwright, Jr.

Administrative
Office of the Courts
John Kennedy
Director

Component Units

University of North Carolina System	Golden LEAF	NC Housing Finance Agency
Community Colleges	State Education Assistance Authority	Other Component Units

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FINANCIAL SECTION



RALPH CAMPBELL, JR.
STATE AUDITOR

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
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INDEPENDENT AUDITOR'S REPORT

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Carolina Housing Finance Agency, which represent 12 percent and 3 percent, respectively, of the assets and revenues of the aggregate discretely presented component units; nor the financial statements of the State Education Assistance Authority, which represent 13 percent and 2 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

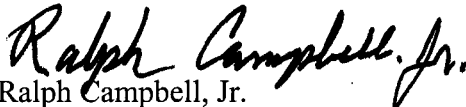


As discussed in Note 18 to the financial statements, the State of North Carolina implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (as amended by Statement 37), Statement 35 *Basic Financial Statements – and Management’s Discussion and Analysis – Public Colleges and Universities*, Statement 38 *Certain Financial Statement Note Disclosures (paragraphs 6 through 11 only)*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 12, 2002 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*.

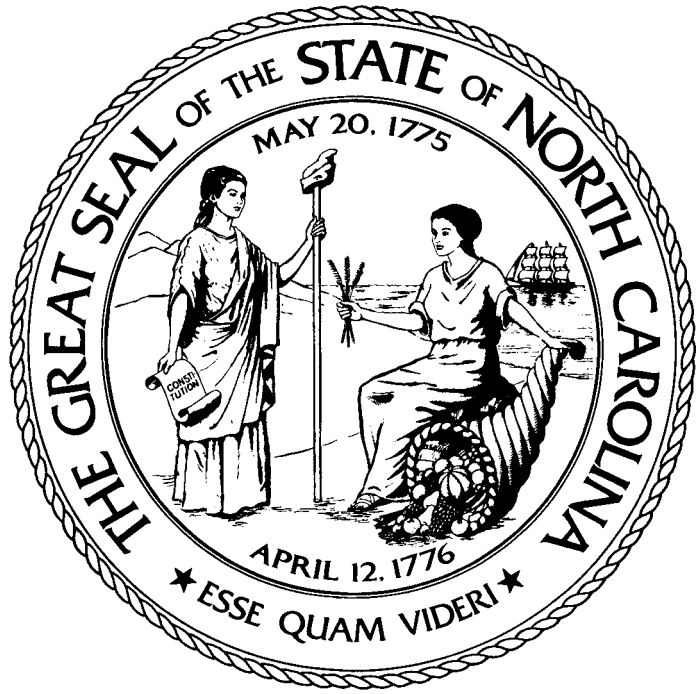
The Management’s Discussion and Analysis on pages 28 through 42, the schedules of funding and contributions for all defined benefit pension trust funds on pages 130 and 131 and the Budgetary Comparison Schedule and Notes – General Fund on pages 132 through 135 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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


Ralph Campbell, Jr.
State Auditor

December 12, 2002

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*MANAGEMENT'S
DISCUSSION AND
ANALYSIS*

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following is a discussion and analysis of the State of North Carolina's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. Because fiscal year 2002 represents the first year in which the State implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, this discussion and analysis provides few comparisons with the previous year. Future reports are required to include extensive comparisons.

Highlights

Government-wide:

- The State's total net assets remained virtually unchanged as a result of this year's operations. While net assets of governmental activities increased by \$562 million, or nearly 2.6 percent, net assets of business-type activities decreased by \$509 million, or about 36.5 percent. At year-end, net assets of governmental activities and business-type activities totaled \$22.015 billion and \$886 million, respectively.
- Component units reported net assets of \$8.2 billion, an increase of \$362.1 million from the previous year. The largest component unit, the University of North Carolina System had net assets of \$5.79 billion at June 30, 2002, an increase of \$178 million, or a 3.2% increase from fiscal year 2001.

Fund Level:

- As of the close of the fiscal year, the State's General Fund reported a total fund balance deficit of \$349 million, with reserves of \$227.8 million, and an unreserved fund balance of negative \$576.3 million.
- The business-type activities funds reported net assets at year-end of \$886 million during the year.

State Highway System:

- The State highway system includes roadway surfaces, bridges, signage, railings, markings and other structures related to the State's motor vehicle transportation system. The system includes 78,350 miles of roads, constituting the second largest highway system in the nation. The system includes 17,250 bridges spanning 380 miles.
- For fiscal year 2002, the State reflected \$11.5 billion (net of accumulated depreciation) of highway system infrastructure, an increase of \$917 million (net), or 8.6%.

Long-term Debt:

- The State's general obligation debt payable increased during the fiscal year to \$3.478 billion, an increase of \$439 million (or by 14.5%), which represents the net difference between new issuances, and payments, recognition of accretion, and the amortization of premiums on outstanding debt.
- During the year the State issued general obligation bonds in the amount of \$605 million. More detailed information regarding these activities and funds begins on page 85.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is

the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Assets (page 46) presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 48 and 49) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

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

Business-type Activities – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund is the predominant business-type activity.

Discretely Presented Component Units – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 64. All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, condensed financial statements for major component units are presented in the notes to the financial statements (page 119).

This report includes two schedules (pages 53 and 55) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Certain pension trust funds have been funded in excess of their annual required contribution. These assets are recorded only in the government-wide statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 64 of this report.

Fund Financial Statements

The fund financial statements begin on page 52 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 137 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

Governmental funds -- Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, and permanent funds.

Proprietary funds -- When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. The Unemployment Compensation Fund is our most significant enterprise fund. Internal service funds report activities that provide supplies and services for the State's other programs and activities - such as the State's State Property Fire Insurance Fund, the Motor Fleet Management Fund, Centralized Computing Services Fund, and Telecommunications Services Fund. Internal service funds are reported as governmental activities on the government-wide statements.

Fiduciary funds -- The State acts as a trustee or fiduciary, for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 60. These funds, which include pension (and other employee benefits), private-purpose, investment trust, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and cannot be used to support the State's own programs.

Additional Required Supplementary Information

Following the basic financial statements and note disclosures is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes General Fund budgetary comparison schedules reconciling the statutory and generally accepted account principles (GAAP) fund balances at fiscal year-end, and pension plan trend information related to funding progress and contributions.

Supplementary Information

Supplementary information includes the introductory section, and the combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Statement of Net Assets. The State's combined net assets increased \$68.3 million, or .3% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$577.7 million or 2.7% and business-type activities had a decrease of \$509.4 million or 36.5%.

Net Assets as of June 30, 2002
(In Millions)

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total Primary</u> <u>Government</u>
Current and other non-current assets.....	\$ 10,312	\$ 1,142	\$ 11,454
Capital assets, net.....	22,340	42	22,382
Total assets.....	32,652	1,184	33,836
Long-term liabilities.....	3,711	10	3,721
Other liabilities.....	6,926	288	7,214
Total liabilities.....	10,637	298	10,935
Net assets:			
Invested in capital assets, net of related debt.....	22,025	38	22,063
Restricted.....	1,605	798	2,403
Unrestricted.....	(1,615)	50	(1,565)
Total net assets.....	\$ 22,015	\$ 886	\$ 22,901

The largest component (98%) of the State's net assets reflects its investment in capital assets (land, buildings, machinery and equipment, State highway systems, general infrastructure, and other capital assets), less any related debt outstanding that was needed to acquire or construct the assets. In subsequent years, comparative data will provide the basis for more detailed analysis.

The State of North Carolina, like many other state and local governments, issues general obligation debt and distributes the proceeds to local governments and component units. The proceeds are used to expand university and community college capacity, fund capital maintenance, build local schools, and to provide local access to clean water and natural gas utilities. Of the \$3.48 billion of outstanding general obligation debt at June 30, 2002, \$3.17 billion of the outstanding debt is attributable to debt issued as State aid to component units (universities and community colleges) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. The policy of selling general obligation bonds and funneling the cash proceeds to non-primary government (non-State) entities has been in place for decades. Through this policy the State was able to promote improved financial management, save bond issuance costs, and receive more attractive financing arrangements. However, by issuing debt and sending the cash proceeds outside of the State, the State is left to reflect significant liabilities on its statement of net assets (balance sheet) which are reflected in the unrestricted net asset component since there are no offsetting capital assets.

The government-wide statement of net assets for governmental activities reflects a negative \$1.6 billion unrestricted net asset balance, with total net assets of \$22.015 billion, and capital assets, net of related debt of \$22.025 billion. Total restricted governmental assets for fiscal year 2002 was \$1.6 billion. From the governmental activities perspective, the fiscal year 2002 statement of net assets indicates that the State is over-committed by \$1.6 billion, primarily because of the distribution of debt proceeds mentioned previously and other unfunded liabilities.

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

Changes in Net Assets
For the Fiscal Year Ended June 30, 2002
(In Millions)

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total Primary</u> <u>Government</u>
Revenues			
Program revenues			
Charges for services.....	\$ 1,313	\$ 461	\$ 1,774
Operating grants and contributions.....	8,787	439	9,226
Capital grants and contributions.....	714	1	715
General revenues			
Taxes			
Individual income tax.....	7,235	—	7,235
Corporate income tax.....	599	—	599
Sales and use tax.....	3,779	—	3,779
Gasoline tax.....	1,213	—	1,213
Franchise tax.....	591	—	591
Highway use tax.....	555	—	555
Insurance tax.....	348	—	348
Beverage tax.....	201	—	201
Inheritance tax.....	107	—	107
Other taxes.....	279	—	279
Tobacco settlement.....	176	—	176
Unrestricted investment earnings.....	139	—	139
Miscellaneous.....	57	—	57
Total revenues.....	26,093	901	26,994
Expenses			
General government.....	874	—	874
Primary and secondary education.....	6,803	—	6,803
Higher education.....	2,520	—	2,520
Health and human services.....	10,377	—	10,377
Economic development.....	469	—	469
Environment and natural resources.....	627	—	627
Public safety, corrections and regulation.....	2,109	—	2,109
Transportation.....	1,531	—	1,531
Agriculture.....	122	—	122
Interest on long-term debt.....	149	—	149
Unemployment compensation.....	—	1,337	1,337
Other business-type activities.....	—	25	25
Total expenses.....	25,581	1,362	26,943
Excess (deficiency) before contributions and transfers.....	512	(461)	51
Contributions to permanent funds.....	2	—	2
Transfers.....	48	(48)	—
Increase (decrease) in net assets.....	562	(509)	53
Net assets - beginning - restated.....	21,453	1,395	22,848
Net assets - ending.....	\$ 22,015	\$ 886	\$ 22,901

As a result of this year's operations, the net assets of governmental activities increased by \$562 million, or 2.6%. While this indicates that current year revenues were sufficient to cover current year expenses, the growth in net assets was limited by the slowdown in the State's economy and the associated increased demand for government services.

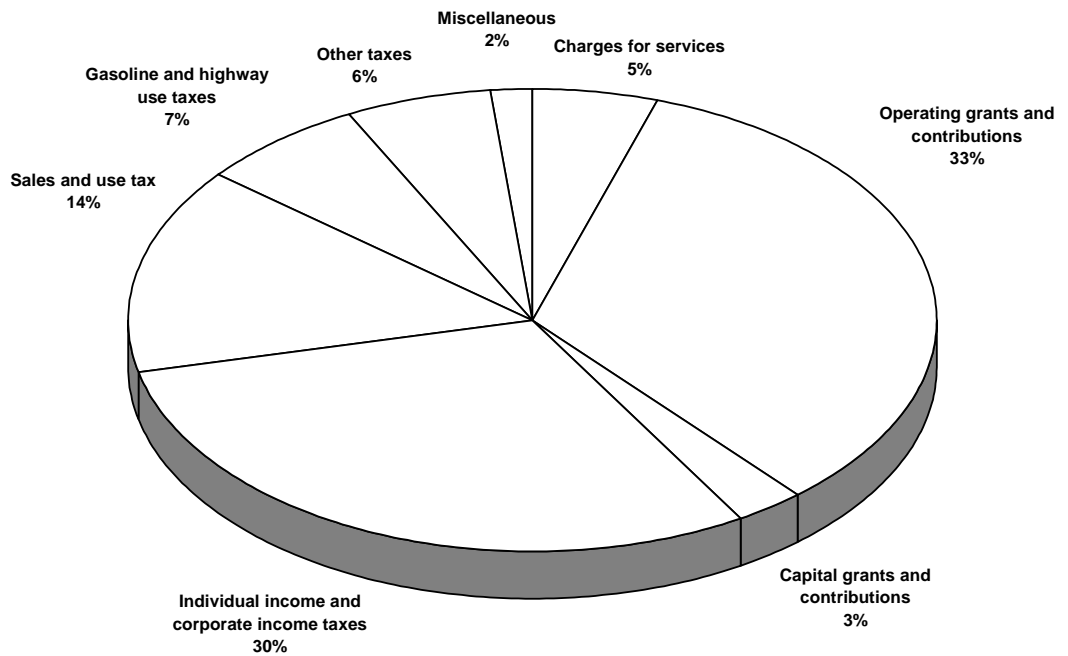
The State highway system is estimated to have a public service life of 50 years based on the planned maintenance schedule. Therefore, instead of charging the entire cost of additions to expense for the State highway system in the year of construction, the State highway system is capitalized and depreciated (costs allocated) over the estimated life of the highway system. The expenses are allocated over the periods of service to the public.

Business-type activities reflect a decrease in net assets of \$509 million. The Unemployment Compensation Fund is the predominant activity accounting for 89.5% of the total net assets of the business type activities. Please refer to the discussion of major funds for more information on the Unemployment Compensation Fund.

Governmental Activities:

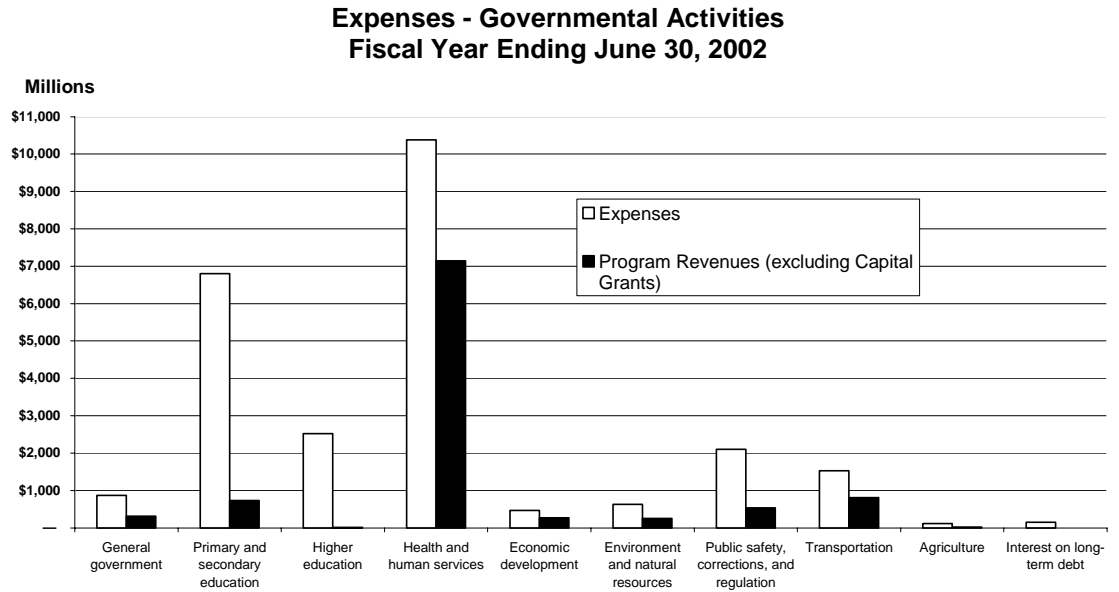
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities
Fiscal Year Ending June 30, 2002**



The State sales tax was increased by a half-cent from 4% to 4.5%, effective October 16, 2001. This increase is scheduled to expire July 1, 2003. Effective July 1, 2002, the provisions for local government tax reimbursements were repealed, and local governments now have the optional authority to impose an additional half-cent sales tax. Effective for the tax years January 1, 2001 through December 31, 2003, the highest individual income tax rate increased from 7.75% to 8.25%.

The following chart depicts expenses of the governmental activities for the fiscal year:



Business-type Activities

Net assets of the business-type activities decreased by \$509.4 million during the fiscal year. The primary factor contributing to these results included:

- Due to the increasing unemployment in the State (due to the slowing economy and losses or lower profits for business in North Carolina), the North Carolina Unemployment Compensation Funds' payment of benefits increased from \$678 million in fiscal year 2001 to \$1.3 billion during fiscal year 2002. However the negative impact on net assets was only \$515 million, because of increases in operating revenues during the year. Operating revenues increased by \$412.8 million, or 104%.

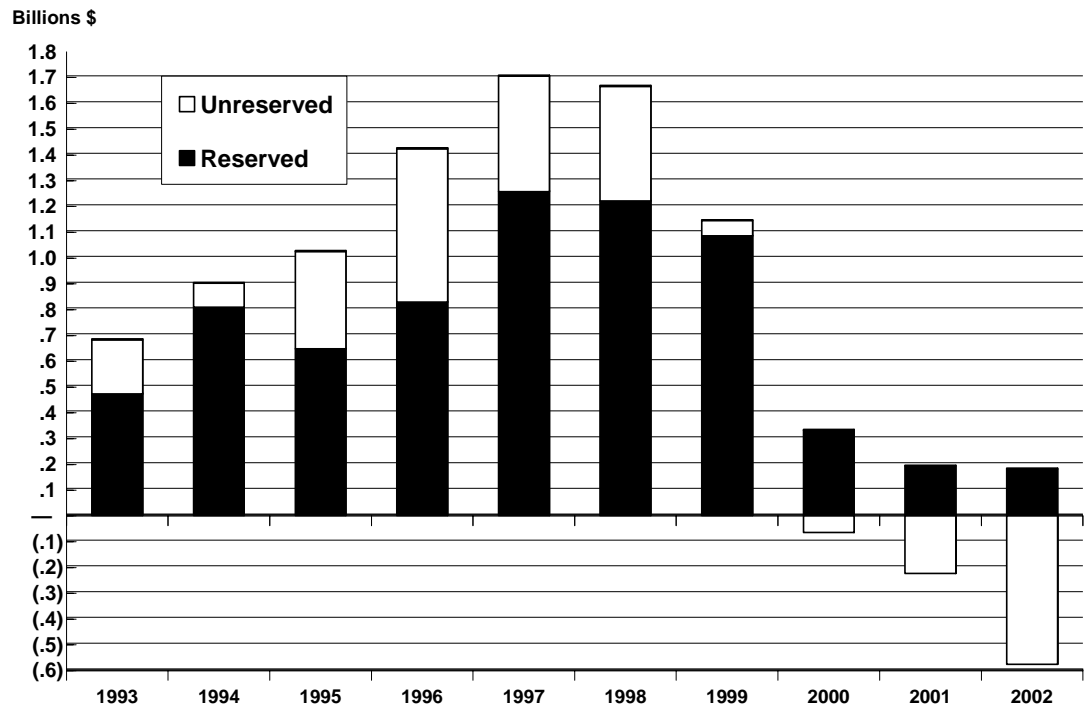
FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As the State completed the year, the governmental funds reflected fund balances of \$3.08 billion. This represented a decline in fund balances of \$513.5 million in fiscal year 2002. The General Fund decline of \$319.5 million, and the Highway Trust Fund decline of \$274.6 million represent the largest portion of the overall decrease in governmental funds.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2002, the State's General Fund reported a total fund balance deficit (negative) of \$349 million, with unreserved fund balance of negative \$576.3 million and reserved fund balance of \$227.8 million. With the addition of management designations as described in Note 8, the State's General Fund was over-committed by \$1.1 billion at June 30, 2002. Total fund balance diminished significantly during the fiscal year (\$319.5 million), primarily the result of lower tax collections and the general slowing of the economy. The public's demand for government services tends to grow or remain strong during times of economic difficulty, particularly in relation to the primary functions funded by General Fund operations (education, health and human services). By the end of fiscal year 2002, General Fund revenues had declined .21% from the prior year. On a modified accrual basis, individual income tax decreased by \$385.7 million, or 5%. Corporate income tax decreased by \$164 million, or 23%. Franchise tax revenues decreased by \$154.4 million, or 20.7%. Sales and use tax increased by \$336.8 million, or 9.8%, although the rate of increase was less than expected given the half-cent rate increase effective for fiscal year 2002. Despite the decline in revenues, General Fund expenditures increased by 366.4 million, or 1.7%.

FUND BALANCES OF THE GENERAL FUND (GAAP Basis)



General Fund Budgetary Highlights

Original versus Final Budget. The General Fund is the State's only major fund, as defined by GASB Statement No. 34, to have a legally adopted annual budget. The original and final annual budgets include budget appropriations supported by tax, non-tax, and other departmental receipts. The portion of the original budget comprising departmental receipts is not intended to be a controlling point in the effort to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year. General Fund departmental receipts are typically

authorized for expenditure within the activity that generated the receipt. Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies expend departmental receipts prior to spending State tax and non-tax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

Final Budget versus Actual Experience. The *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance—Budget and Actual (Budgetary Basis—Non-GAAP), General Fund* is intended to demonstrate legal compliance. In a typical year of General Fund budgetary operations, federal and intra-governmental transactions will be significantly under-realized with an offsetting under-expenditure in the primary and secondary education; health and human services; and public safety, corrections, and regulation. When departmental receipts reflect under-realized revenues, there is an offsetting under-expenditure of dollars against total budgeted appropriations.

For fiscal year 2002, the State experienced a shortfall in tax and non-tax receipts on the order of \$1.55 billion. Typical with the experience of other state governments, the slowing national and state economy, resulted in a general decline in tax collections. Net of refunds to taxpayers, individual income taxes fell short of estimates by \$1.04 billion, corporate income taxes were less than expected by \$177 million, sales and use tax was \$90.5 million less than expected, and franchise tax was \$192.7 million under budget estimates. Inheritance tax collections fell short of estimates by \$25.4 million. Higher unemployment, lower individual business and corporate earnings, and a declining stock market, resulting in lower capital gains, represented the common thread in the general tax revenue decline.

In the effort to meet the State constitutional mandate of balancing the General Fund budget, reductions of \$789.2 million were implemented, with the remainder of the budget funded by \$437.7 million of non-General Fund dollars, and \$239.3 million transferred from the Savings Reserve account.

Budget reductions affecting the major General Fund functions of our State government were as follows: general government, 9.9%; primary and secondary education, 1.8%; community colleges, 7.1%; public universities, 8.6%; health and human services, 3.9%; economic development, 12.9%; environment and natural resources, 18.9%, public safety, correction, and regulation, 4.5%; and agriculture, 12.5%.

Investment income fell short of estimated budgetary receipts by \$34.2 million as a result of lower General Fund cash available for investment and lower investment rates of return.

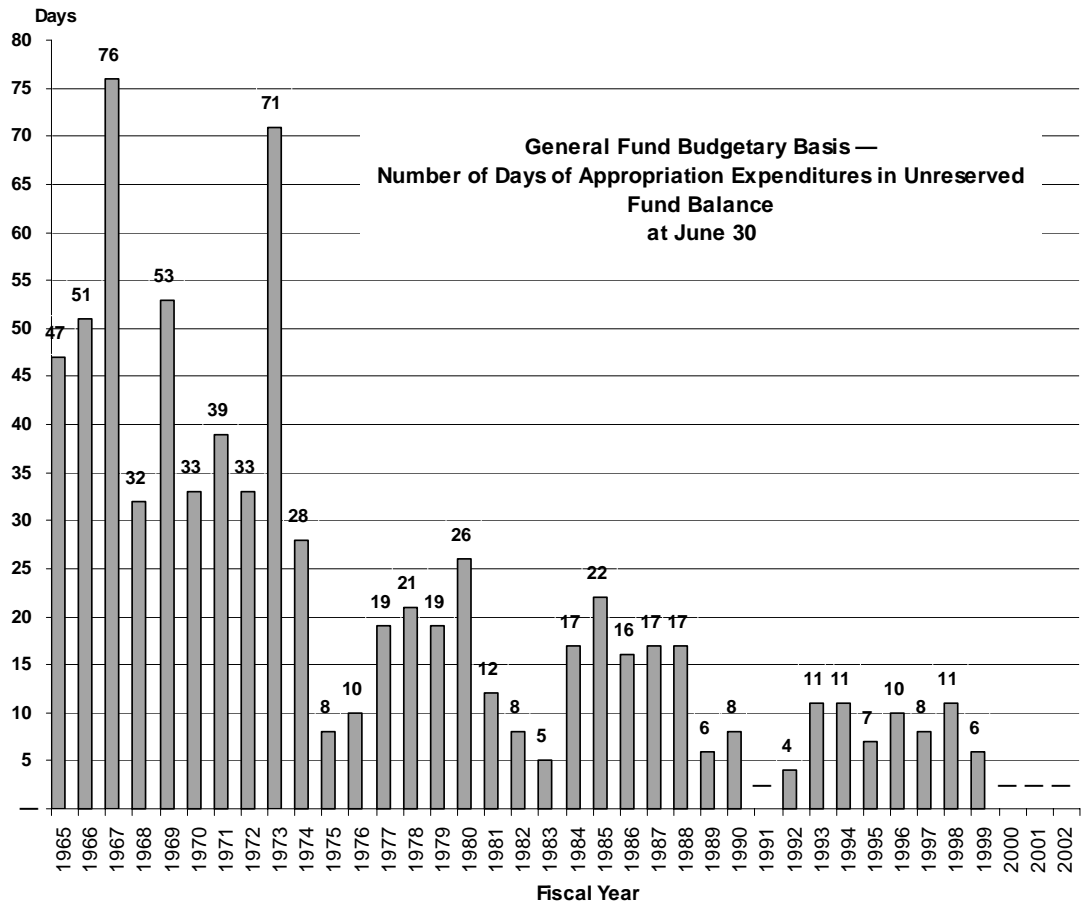
Our State manages the budget through the Office of State Budget and Management (OSBM). For fiscal year 2002, OSBM executed the necessary cuts in the budget by withholding portions of quarterly allotments and by giving agencies targeted reductions in spending. The final budget for tax and non-tax revenues is never amended without a special session of the General Assembly. The appropriation of increases in departmental receipts is authorized by the General Assembly through special provision in the biennial budget bill.

Each state has flexibility in how it decides to establish and execute its budget. For example, North Carolina nets certain distributions of State funds to local governments and other entities directly out of taxes, where other states may appropriate similar activities. Effective for fiscal year 2003, certain local government distributions previously considered continuing State appropriations from State revenue collections, will be accounted for and reported as local government funds.

Refunds to individual income taxpayers of \$1.373 billion represented 15.9% of total gross individual income collections for fiscal year 2002. Refunds to corporate taxpayers of \$230.8 million represented 23.2% of gross corporate income tax collections. Refunds of sales and use tax totaled \$398.7 million in fiscal year 2002, or 6.8% of gross collections.

For fiscal year 2002, the General Fund again closed the year with an extremely low unreserved fund balance. For the fiscal years ended June 30, 2000, 2001, and 2002, the ending unreserved fund balance was zero, zero, and \$3.8 million, respectively. To gain a sense of perspective, since 1965 unreserved

fund balance in the General Fund averaged \$200 million per year, or 3.9% of total appropriation expenditures, equivalent to 10 business days disbursements of appropriation expenditures. In the decade of the 1990's, unreserved fund balance averaged \$293 million, or 3.1% of appropriation expenditures, equivalent to eight business days worth of disbursements of appropriation expenditures.



North Carolina is required by its constitution to balance the General Fund on a budgetary basis. The budgetary basis reserved fund balance totaled \$390.1 million (see table below). See the notes to required supplemental information 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, 2001	Increases		(Decreases)		Balance June 30, 2002
		Transfers from General Fund Unreserved Fund Balance	Unbudgeted Revenues	Transfers to General Fund Unreserved Fund Balance	Unbudgeted Expenditures	
Savings.....	\$ 157,522	\$ 90,000	\$ 7,352	\$ (239,342)	\$ (15,532)	\$ —
Retirees' health premium...	53,895	—	—	—	(3,085)	50,810
N.C. Railroad acquisition...	31,582	—	—	—	(9,501)	22,081
Disproportionate share.....	1,170	—	—	—	(1,170)	—
Disaster relief.....	448,608	—	123,583	—	(254,956)	317,235
Exec. Order #3.....	178,472	2,911	—	—	(181,383)	—
Exec. Order #19.....	—	—	440,915	(324,915)	(116,000)	—
Total.....	\$ 871,249	\$ 92,911	\$ 571,850	\$ (564,257)	\$ (581,627)	\$ 390,126

General Fund Fiscal Year 2003 Budget. The General Fund State appropriations budget for fiscal year 2003 is \$14.35 billion. The General Assembly took action on several revenue enhancements for fiscal year 2003, totaling \$866.1 million. The most significant action was the accelerated repeal of the local government reimbursements paid to replace revenues lost by local governments as the result of actions taken by the State (\$333.4 million for fiscal year 2003). Local governments were granted the authority to establish a one-half cent local option sales tax to replace the reimbursements. Additionally, the annual transfer from the Highway Trust Fund was increased by \$205 million for 2002-2003, of which \$80 million is to be on a recurring basis, with \$125 million established a one-time advance to be repaid in the future. Additional non-recurring transfers of \$38 million, from the Tobacco Trust Fund, and \$40 million, from the Health and Wellness Trust Fund were approved by the General Assembly for fiscal year 2003. The following table summarizes the fiscal year 2003 revenue enhancements. Amounts are expressed in millions.

	<u>Amount</u>
Local government reimbursements cancelled	\$ 333.4
Highway Trust Fund Transfer — advance	125.0
Business tax revisions	90.0
Highway Trust Fund Transfer — recurring adjustment	80.0
Delay 2001 tax breaks	51.7
Transfer from Health and Wellness Trust Fund — non-recurring	40.0
Departmental fee increases	39.3
Transfer from Tobacco Trust Fund — non-recurring	38.0
Department of Revenue — Project Collect Tax	32.5
Special Fund / Trust Fund Transfers — non-recurring	20.4
Internal Revenue Code Conformity	15.8
Total	<u>\$ 866.1</u>

Highway Fund

The Highway Fund accounts for most of the activities of the North Carolina Department of Transportation, including the construction and maintenance of the State primary, secondary, and urban road systems. The principal revenues of the Highway Fund are gasoline (motor fuels) taxes, motor vehicle registration fees, driver's license fees, and federal aid.

While the effects of the slowing economy have had an impact on business travel, commercial transportation and general consumer travel and tourism, the States highway fund taxes and fees have still shown growth. Although total revenue of the Highway Fund declined by \$29 million, or 1.3%, gasoline tax increased by \$20 million, or 2.3%, and fees, licenses, and fines increased by \$18.8 million, or 4.8%. The largest decrease came in the decline of accrued federal funds, \$52 million, or 5.8%. Expenditures for highway construction, maintenance, and administration grew by \$103 million, or 4.5%.

Highway Trust Fund

The Highway Trust Fund was established to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. Additionally, this fund provides supplemental allocations for secondary road construction and supplemental assistance to municipalities for local street projects. The fund also makes transfers to the General Fund and the Highway Fund. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

Total revenues of the Highway Trust Fund declined by \$10.8 million, or 1%. The decline in investment and interest earnings of \$26.7 million, as a result of lower cash balances to invest, had the largest impact on the Highway Trust Fund. Gasoline tax increased by \$8.3 million, or 2.9%, and highway use tax grew by \$9 million, or 1.7%. Transportation related expenditures of the Highway Trust Fund grew by \$63.5 million, or 11.9%.

Unemployment Compensation Fund

The Unemployment Compensation Fund accounts for the State's unemployment insurance program, which is part of a national system established to provide temporary benefit payments to eligible unemployed workers. The unemployment benefits are financed primarily by State unemployment insurance taxes, distributions of federal unemployment insurance taxes, and federal funding for the unemployment benefits.

For fiscal year 2002, employer contributions grew by \$52.5 million, or 13.8%. Federal Funds grew by \$361.3 million, or 2,465%. The drastic growth in revenues was driven by a slowing economy and an increasing unemployment rate in North Carolina. Unemployment benefits paid in fiscal year 2002 totaled \$1.3 billion, a 96.6% increase in payments over fiscal year 2001. Net assets of \$793 million at June 30, 2002 represented a decline of \$516.2 million, or 39.4%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2002, the Statement of Net Assets reflected \$22.382 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$515.7 million.

Capital Assets, Net as of June 30, 2002
(In Millions)

	Governmental Activities	Business-type Activities	Total Primary Government
Land.....	\$ 7,209	\$ 3	\$ 7,212
Buildings.....	1,330	15	1,345
Machinery and equipment.....	576	1	577
General infrastructure.....	88	7	95
State highway system.....	11,547	—	11,547
Other.....	135	—	135
Subtotal.....	20,885	26	20,911
Construction in progress.....	1,455	16	1,471
Total.....	\$ 22,340	\$ 42	\$ 22,382

The effort to manage the State's General Fund budget shortfall resulted in the postponement of most construction and maintenance activity. The State's fiscal year 2001-2002 capital outlay budget included spending \$32.9 million for new projects at various state agency buildings. More detailed information about the State's capital assets is presented in Note 4 to the financial statements, and in Note 17.

For fiscal year 2002, the State reflected \$11.5 billion (net of accumulated depreciation) of highway system infrastructure, an increase of \$917 million (net), or 8.6%. Depreciation expense for the highway system was \$315 million for fiscal year 2002. Based on the requirements of GASB Statement No. 34, governments were only required to capitalize major infrastructure systems back to July 1, 1980. The North Carolina Department of Transportation was able to recall and capitalize construction expenditure information to include highway system construction costs since 1953.

Long-term Debt: The State authorizes, issues, and sells debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. More detailed information regarding the State's long-term obligations is presented in Note 6 to the financial statements.

Outstanding Bonded Debt as of June 30, 2002
(In Millions)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
General obligation bonds (backed by the state).....	\$ 3,478	\$ —	\$ 3,478
Revenue bonds and notes (backed by specific tax and fee revenues).....	<u>—</u>	<u>10</u>	<u>10</u>
Total	<u>\$ 3,478</u>	<u>\$ 10</u>	<u>\$ 3,488</u>

During fiscal year 2002, the State issued general obligation debt totaling \$605 million (\$300 million for capital maintenance and expanding the capacity of universities and community colleges; \$215 million for clean water; \$55 million for local school construction; and \$35 million for natural gas).

The State is in the process (\$300 million referred to above issued in fiscal year 2002) of fulfilling a significant commitment to increase the capacity of the universities and community colleges and to provide funding for renovations. In November 2000, the State's voters approved \$3.1 billion of University and Community College general obligation bonds. The General Assembly has predetermined the specific building projects to be funded by the bond proceeds. At June 30, 2002, there was a remaining bond authorization of \$2.55 billion of higher education bonds yet to be issued, constituting 82.3% of the original \$3.1 billion higher education bond authorization.

Bond Ratings

The State's general obligation bonds are rated Aa1 by Moody's, AAA by Standard & Poors, and AAA by Fitch. During the fiscal year, Moody's Investors Services downgraded the State of North Carolina's general obligation rating to Aa1, from Aaa. According to Moody's, the primary reasons for the downgrade were the State's continued budget pressure, reliance on non-recurring revenues, and weakened balance sheet. Also, Moody's commented that the task of restoring structural budget balance and rebuilding reserves faces political and economic obstacles.

Limitations on Debt

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.

No short-term borrowing occurred in fiscal year 2002.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate has dropped from 6.9% in April to 6.0% in October, and we have seen improvement in the unemployment claims numbers. State sales tax receipts during the quarter ending September 30 were up 1.7% over the same quarter last year and increased 2.3% during the second calendar quarter. This compares to -2.0% for the first quarter and -3.5% for the final quarter of 2001. Unit sales of cars and light trucks rose 2.9% in May and June this year.

Even with the recent improvements, the State is budgeting on the basis of a continued sluggish recovery. As the state has diversified away from the traditional manufacturing industries (textiles, apparel, furniture, and tobacco) to electronics and other technology-oriented companies, we have become more vulnerable to problems in the new sectors.

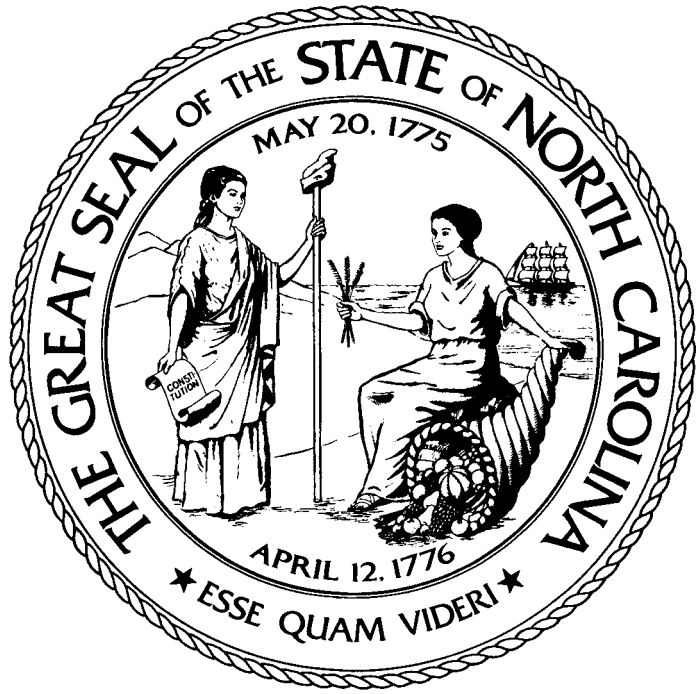
Key Economic Forecast Variables (% Change Unless Noted)

	Fiscal Year 2002 <u>Actual</u>	Fiscal Year 2003 <u>Budgeted</u>
<u>North Carolina</u>		
Total Employment	-1.1%	-1.4%
Manufacturing Employment	-7.1%	-4.5%
Unemployment Rate	6.3%	7.4%
Personal Income	1.3%	1.8%

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the North Carolina Office of the State Controller, Financial Reporting Section at (919) 981-5454.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. A list of component units and contact information is available in Note 1, beginning on page 64.



*BASIC
FINANCIAL
STATEMENTS*

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*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET ASSETS

June 30, 2002

Exhibit A-1

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents (Note 3).....	\$ 3,628,804	\$ 705,163	\$ 4,333,967	\$ 1,877,906
Investments (Note 3).....	418,848	35,888	454,736	3,058,029
Securities lending collateral (Note 3).....	3,674,464	200,009	3,874,473	—
Receivables, net.....	1,765,221	197,621	1,962,842	584,511
Due from fiduciary funds (Note 7).....	5,681	—	5,681	—
Due from component units (Note 7).....	9,391	—	9,391	584
Due from primary government (Note 7).....	—	—	—	155,677
Internal balances.....	390	(390)	—	—
Inventories.....	134,715	416	135,131	65,880
Prepaid items.....	6,965	2,519	9,484	11,524
Advances to component units (Note 7).....	47,081	—	47,081	—
Notes receivable.....	522,684	—	522,684	2,445,722
Endowment investments.....	49,730	—	49,730	—
Deferred charges.....	—	129	129	17,605
Securities held in trust.....	48,432	—	48,432	—
Pension assets (Note 9).....	37	—	37	—
Capital assets, net (Note 4).....	22,339,580	42,358	22,381,938	5,120,036
Total Assets.....	<u>32,652,023</u>	<u>1,183,713</u>	<u>33,835,736</u>	<u>13,337,474</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	1,019,291	18,335	1,037,626	549,201
Medical claims payable.....	709,514	—	709,514	4,233
Unemployment benefits payable.....	—	53,966	53,966	—
Tax refunds payable.....	945,426	—	945,426	—
Obligations under securities lending.....	3,674,464	200,009	3,874,473	—
Interest payable.....	44,786	25	44,811	22,825
Due to fiduciary funds (Note 7).....	8,673	—	8,673	—
Due to component units (Note 7).....	155,677	—	155,677	584
Due to primary government (Note 7).....	—	—	—	18,218
Unearned revenue.....	273,318	14,882	288,200	83,456
Advance from primary government (Note 7).....	—	—	—	55,908
Obligations under reverse repurchase agreements.....	—	—	—	34,995
Deposits payable.....	176	141	317	22,040
Funds held for others.....	94,393	—	94,393	398,684
Long-term liabilities (Note 6):				
Due within one year.....	227,080	268	227,348	209,672
Due in more than one year.....	3,484,516	9,904	3,494,420	3,733,590
Total Liabilities.....	<u>10,637,314</u>	<u>297,530</u>	<u>10,934,844</u>	<u>5,133,406</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	22,025,039	38,267	22,063,306	3,851,666
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	43,846	—	43,846	—
Higher education.....	—	—	—	583,336
Expendable:				
Primary and secondary education.....	15,811	—	15,811	—
Higher education.....	403,934	—	403,934	1,931,330
Health and human services.....	39,210	—	39,210	—
Economic development.....	53,389	—	53,389	231,901
Environment and natural resources.....	44,125	—	44,125	—
Public safety, corrections, and regulation.....	18,151	—	18,151	—
Transportation.....	803,385	—	803,385	—
Unemployment compensation.....	—	793,118	793,118	—
Other purposes.....	182,921	4,319	187,240	7,192
Unrestricted.....	(1,615,102)	50,479	(1,564,623)	1,598,643
Total Net Assets.....	<u>\$ 22,014,709</u>	<u>\$ 886,183</u>	<u>\$ 22,900,892</u>	<u>\$ 8,204,068</u>

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

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STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary Government:					
Governmental Activities:					
General government.....	\$ 874,208	\$ 184,982	\$ 128,677	\$ 2,544	\$ (558,005)
Primary and secondary education.....	6,802,979	14,648	720,923	—	(6,067,408)
Higher education.....	2,519,703	789	15,281	—	(2,503,633)
Health and human services.....	10,376,807	133,275	7,014,086	—	(3,229,446)
Economic development.....	469,102	21,828	244,531	—	(202,743)
Environment and natural resources.....	627,369	92,604	158,720	39,192	(336,853)
Public safety, corrections, and regulation.....	2,109,487	327,457	208,348	30,863	(1,542,819)
Transportation.....	1,530,870	524,198	282,519	638,690	(85,463)
Agriculture.....	121,729	13,178	14,169	2,795	(91,587)
Interest on long-term debt.....	148,595	—	—	—	(148,595)
Total Governmental Activities.....	<u>25,580,849</u>	<u>1,312,959</u>	<u>8,787,254</u>	<u>714,084</u>	<u>(14,766,552)</u>
Business-type Activities:					
Unemployment Compensation.....	1,336,718	433,364	434,439	—	(468,915)
Other business-type activities.....	25,431	27,477	4,321	1,121	7,488
Total Business-type Activities.....	<u>1,362,149</u>	<u>460,841</u>	<u>438,760</u>	<u>1,121</u>	<u>(461,427)</u>
Total Primary Government.....	<u>\$ 26,942,998</u>	<u>\$ 1,773,800</u>	<u>\$ 9,226,014</u>	<u>\$ 715,205</u>	<u>\$ (15,227,979)</u>
Component Units:					
Golden LEAF Foundation.....	\$ 11,366	\$ —	\$ (12,995)	\$ —	\$ (24,361)
University of North Carolina System.....	5,132,174	3,045,092	391,424	35,484	(1,660,174)
Community Colleges.....	1,155,149	183,081	345,531	54,361	(572,176)
N.C. Housing Finance Agency.....	161,449	170,778	—	—	9,329
N.C. State Education Assistance Authority.....	101,819	69,352	53,254	—	20,787
Other component units.....	197,548	39,958	10,774	11,044	(135,772)
Total Component Units.....	<u>\$ 6,759,505</u>	<u>\$ 3,508,261</u>	<u>\$ 787,988</u>	<u>\$ 100,889</u>	<u>\$ (2,362,367)</u>

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

STATEMENT OF ACTIVITIES (continued)

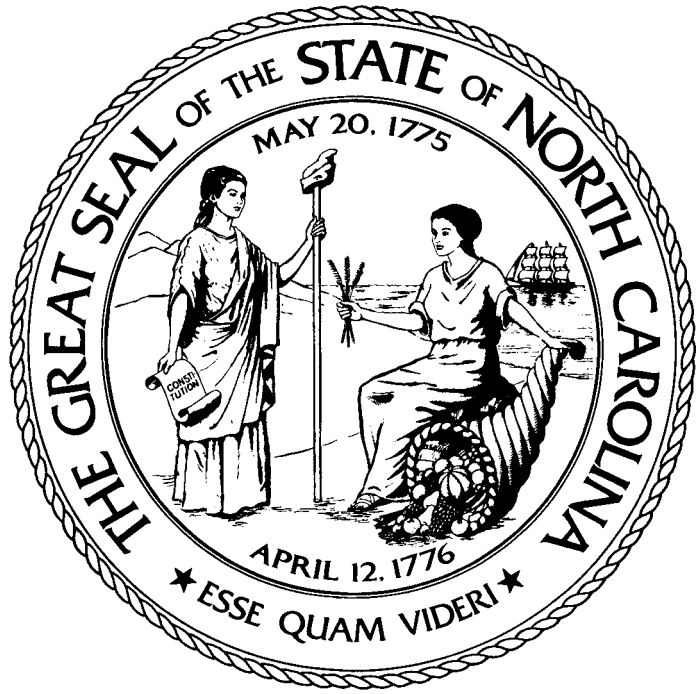
For the Fiscal Year Ended June 30, 2002

Exhibit A-2

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in Net Assets:				
Net (expense) revenue	\$ (14,766,552)	\$ (461,427)	\$ (15,227,979)	\$ (2,362,367)
General Revenues:				
Taxes				
Individual income tax.....	7,234,431	—	7,234,431	—
Corporate income tax.....	599,382	—	599,382	—
Sales and use tax.....	3,778,873	—	3,778,873	—
Gasoline tax.....	1,212,788	—	1,212,788	—
Franchise tax.....	590,992	—	590,992	—
Highway use tax.....	555,320	—	555,320	—
Insurance tax.....	347,893	—	347,893	—
Beverage tax.....	200,593	—	200,593	—
Inheritance tax.....	106,491	—	106,491	—
Other taxes.....	278,740	—	278,740	—
Tobacco settlement.....	175,836	—	175,836	—
Unrestricted investment earnings.....	139,350	—	139,350	—
State operating aid.....	—	—	—	2,473,602
State capital aid.....	—	—	—	217,306
Miscellaneous.....	57,484	—	57,484	2,384
Contributions to permanent funds.....	2,019	—	2,019	—
Contributions to term and permanent endowments.....	—	—	—	31,148
Transfers.....	47,957	(47,957)	—	—
Total general revenues and transfers.....	15,328,149	(47,957)	15,280,192	2,724,440
Change in net assets.....	561,597	(509,384)	52,213	362,073
Net assets — July 1, as restated.....	21,453,112	1,395,567	22,848,679	7,841,995
Net assets — June 30.....	\$ 22,014,709	\$ 886,183	\$ 22,900,892	\$ 8,204,068

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FUND FINANCIAL STATEMENTS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2002

Exhibit B-1

(Dollars in Thousands)

	General	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Note 3).....	\$ 782,364	\$ 473,860	\$ 548,061	\$ 1,761,147	\$ 3,565,432
Investments (Note 3).....	1,762	—	—	396,053	397,815
Securities lending collateral (Note 3).....	1,949,795	457,674	405,796	840,379	3,653,644
Receivables, net:					
Taxes receivable.....	745,719	82,808	30,070	2,163	860,760
Accounts receivable.....	105,399	2,795	329	28,921	137,444
Intergovernmental receivable.....	659,024	26,151	473	10,307	695,955
Interest receivable.....	8,720	2,008	2,072	7,776	20,576
Contributions receivable.....	19,987	—	—	—	19,987
Other receivables.....	—	6,275	—	17	6,292
Due from fiduciary funds (Note 7).....	5,457	—	—	216	5,673
Due from other funds (Note 7).....	3,826	78,227	37	26,039	108,129
Due from component units (Note 7).....	5,101	—	—	2,659	7,760
Inventories.....	43,772	63,332	—	27,333	134,437
Prepaid items.....	—	—	—	57	57
Advances to other funds (Note 7).....	—	—	2,624	—	2,624
Advances to component units (Note 7).....	22,081	—	—	25,000	47,081
Notes receivable.....	2,952	—	—	519,732	522,684
Securities held in trust.....	588	12,920	—	34,924	48,432
Endowment investments.....	—	—	—	49,730	49,730
Total Assets.....	\$ 4,356,547	\$ 1,206,050	\$ 989,462	\$ 3,732,453	\$ 10,284,512
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 63,739	\$ 146,873	\$ 37,950	\$ 49,879	\$ 298,441
Accrued payroll.....	5,072	28,632	—	1,347	35,051
Intergovernmental payable.....	517,734	90,454	42,750	9,696	660,634
Claims payable.....	—	—	—	21,658	21,658
Medical claims payable.....	709,514	—	—	—	709,514
Tax refunds payable.....	945,426	—	—	—	945,426
Obligations under securities lending.....	1,949,795	457,674	405,796	840,379	3,653,644
Interest payable.....	888	—	—	—	888
Due to fiduciary funds (Note 7).....	8,673	—	—	—	8,673
Due to other funds (Note 7).....	13,793	8,159	76,944	21,162	120,058
Due to component units (Note 7).....	10,791	218	—	144,067	155,076
Deferred revenue.....	478,933	2,352	37	18,242	499,564
Advance from other funds (Note 7).....	—	2,624	—	—	2,624
Deposits payable.....	135	30	—	11	176
Funds held for others.....	605	58,857	—	34,931	94,393
Total Liabilities.....	4,705,098	795,873	563,477	1,141,372	7,205,820
Fund Balances:					
Reserved (Note 8).....	227,767	53,560	—	1,045,479	1,326,806
Unreserved, reported in:					
General Fund.....	(576,318)	—	—	—	(576,318)
Special Revenue Funds.....	—	356,617	425,985	1,471,625	2,254,227
Capital Projects Funds.....	—	—	—	73,751	73,751
Permanent Funds.....	—	—	—	226	226
Total Fund Balance.....	(348,551)	410,177	425,985	2,591,081	3,078,692
Total Liabilities and Fund Balances.....	\$ 4,356,547	\$ 1,206,050	\$ 989,462	\$ 3,732,453	\$ 10,284,512

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2002

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) \$ 3,078,692

Amounts reported for governmental activities in the Statement of Net Assets are different because:

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 4). These consist of:		
Cost of capital assets (excluding internal service funds).....	\$ 27,845,415	
Less: Accumulated depreciation (excluding internal service funds).....	(5,593,147)	
Net capital assets.....		22,252,268
- Some assets , such as receivables, are not available soon enough to pay for current-period expenditures and thus, are offset by deferred revenue in the governmental funds.		228,786
- Pension assets , resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not reported in the funds. (See Note 9)		37
- Long-term debt instruments , such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 6). Also, unamortized debt premiums are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable.....	(3,467,325)	
Unamortized debt premiums (to be amortized as interest expense).....	(13,709)	
Less: Unamortized debt discounts (to be amortized as interest expense).....	3,081	
Notes payable.....	(11,753)	
Capital leases payable.....	(216)	
Net long-term debt.....		(3,489,922)
- Other liabilities not due and payable in the current period and, therefore, not reported in the funds (see Note 6) consist of:		
Accrued interest payable.....	(43,898)	
Compensated absences (excluding internal service funds).....	(207,563)	
Obligations for workers compensation.....	(7,145)	
Arbitrage rebate payable.....	(1,287)	
Net pension obligation.....	(3,775)	
Total other liabilities.....		(263,668)
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (see Exhibit B-3).		208,516
Total net assets - governmental activities (see Exhibit A-1)		<u>\$ 22,014,709</u>

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

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

For the Fiscal Year Ended June 30, 2002

Exhibit B-2

(Dollars in Thousands)

	General	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax.....	\$ 7,219,794	\$ —	\$ —	\$ 454	\$ 7,220,248
Corporate income tax.....	548,046	—	—	54,330	602,376
Sales and use tax.....	3,766,285	—	—	12,900	3,779,185
Gasoline tax.....	—	889,919	296,964	26,613	1,213,496
Franchise tax.....	592,259	—	—	—	592,259
Highway use tax.....	—	—	555,320	—	555,320
Insurance tax.....	340,785	—	—	7,108	347,893
Beverage tax.....	200,593	—	—	—	200,593
Inheritance tax.....	104,799	—	—	—	104,799
Other taxes.....	181,657	—	—	96,970	278,627
Federal funds.....	7,266,016	845,347	—	347,981	8,459,344
Local funds.....	682,310	7,269	—	12,497	702,076
Investment earnings.....	188,310	22,866	10,183	113,723	335,082
Interest earnings on loans.....	21	127	31,526	15,747	47,421
Sales and services.....	61,259	7,060	—	126,229	194,548
Rental and lease of property.....	7,102	13,839	1,790	1,628	24,359
Fees, licenses, and fines.....	237,236	408,198	90,968	128,510	864,912
Tobacco settlement.....	175,836	—	—	—	175,836
Contributions, gifts, and grants.....	33,688	3,530	488	56,096	93,802
Funds escheated.....	—	—	—	90,181	90,181
Miscellaneous.....	118,690	9,466	195	17,536	145,887
Total revenues.....	<u>21,724,686</u>	<u>2,207,621</u>	<u>987,434</u>	<u>1,108,503</u>	<u>26,028,244</u>
Expenditures:					
Current:					
General government.....	741,605	—	—	67,793	809,398
Primary and secondary education.....	6,495,702	—	—	306,960	6,802,662
Higher education.....	2,296,331	—	—	223,293	2,519,624
Health and human services.....	10,333,124	—	—	65,262	10,398,386
Economic development.....	188,617	—	—	310,027	498,644
Environment and natural resources.....	201,369	—	—	373,502	574,871
Public safety, corrections, and regulation.....	1,809,322	—	—	260,844	2,070,166
Transportation.....	—	2,396,459	595,728	—	2,992,187
Agriculture.....	73,176	—	—	49,161	122,337
Capital outlay.....	—	—	—	126,011	126,011
Debt service:					
Principal retirement.....	163,723	—	16,675	—	180,398
Interest.....	138,148	—	9,432	—	147,580
Bond issuance costs.....	477	—	—	257	734
Total expenditures.....	<u>22,441,594</u>	<u>2,396,459</u>	<u>621,835</u>	<u>1,783,110</u>	<u>27,242,998</u>
Excess revenues over (under) expenditures.....	<u>(716,908)</u>	<u>(188,838)</u>	<u>365,599</u>	<u>(674,607)</u>	<u>(1,214,754)</u>
Other Financing Sources (Uses):					
Bonds issued.....	—	—	—	605,000	605,000
Other debt issued.....	4,832	—	—	—	4,832
Premium on debt issued.....	—	—	—	14,733	14,733
Capital leases.....	216	—	—	—	216
Sale of capital assets.....	5,950	547	1,003	5,070	12,570
Transfers in.....	616,871	400,843	—	460,594	1,478,308
Transfers out.....	(230,499)	(197,956)	(641,170)	(344,793)	(1,414,418)
Total other financing sources (uses).....	<u>397,370</u>	<u>203,434</u>	<u>(640,167)</u>	<u>740,604</u>	<u>701,241</u>
Net change in fund balances.....	<u>(319,538)</u>	<u>14,596</u>	<u>(274,568)</u>	<u>65,997</u>	<u>(513,513)</u>
Fund balances — July 1, as restated (Note 19).....	(28,086)	396,054	700,553	2,526,882	3,595,403
Increase (decrease) in reserve for related assets.....	(927)	(473)	—	(1,798)	(3,198)
Fund balances — June 30.....	<u>\$ (348,551)</u>	<u>\$ 410,177</u>	<u>\$ 425,985</u>	<u>\$ 2,591,081</u>	<u>\$ 3,078,692</u>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

June 30, 2002

Exhibit B-2a

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)	\$ (513,513)
Amounts reported for governmental activities in the Statement of Activities are different because:	
- Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlays (including construction-in-progress)	\$ 1,979,924
Less: Depreciation expense	(459,627)
Net capital outlay adjustment	1,520,297
- Proceeds from the sale of capital assets increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.	
	(44,841)
- Long-term debt proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:	
Debt issued:	
Bonds and similar debt issued	(609,832)
Capital lease financings	(216)
Premiums on debt issued	(14,506)
Principal repayments:	
Bonds, notes, and similar debt	180,398
Net debt adjustments	(444,156)
- Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are deferred in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.	
	35,620
- Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:	
Accrued interest	(2,039)
Compensated absences	5,181
Workers compensation	(77)
Arbitrage rebate	8,261
Net pension obligation	(419)
Amortization of deferred amounts	797
Net expense accruals	11,704
- Inventories of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.	
	(3,198)
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).	
	(316)
Change in net assets - governmental activities (see Exhibit A-2)	\$ 561,597

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2002

Exhibit B-3

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			Governmental Activities —
	Unemployment Compensation Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 3).....	\$ 670,073	\$ 32,069	\$ 702,142	\$ 63,372
Restricted cash and cash equivalents (Note 3).....	—	724	724	—
Investments (Note 3).....	—	27,700	27,700	21,033
Restricted investments (Note 3).....	—	25	25	—
Securities lending collateral (Note 3).....	173,899	26,110	200,009	20,820
Receivables:				
Accounts receivable, net.....	19,232	918	20,150	24,126
Intergovernmental receivables.....	1,616	—	1,616	—
Interest receivable.....	855	73	928	59
Premiums receivable.....	—	1,016	1,016	21
Contributions receivable, net.....	173,724	113	173,837	—
Due from fiduciary funds (Note 7).....	—	—	—	8
Due from other funds (Note 7).....	9	—	9	17,028
Due from component units (Note 7).....	—	—	—	1,631
Inventories.....	—	416	416	278
Prepaid items.....	—	2,519	2,519	6,908
Total current assets.....	<u>1,039,408</u>	<u>91,683</u>	<u>1,131,091</u>	<u>155,284</u>
Noncurrent Assets:				
Restricted/designated cash and cash equivalents (Note 3).....	—	2,297	2,297	—
Investments (Note 3).....	—	52	52	—
Restricted investments (Note 3).....	—	8,111	8,111	—
Receivables:				
Accounts receivable, net.....	—	—	—	1
Contributions receivable, net.....	—	74	74	—
Deferred charges.....	—	129	129	—
Capital assets, net (Note 4).....	—	42,358	42,358	87,312
Total noncurrent assets.....	<u>—</u>	<u>53,021</u>	<u>53,021</u>	<u>87,313</u>
Total Assets.....	<u>1,039,408</u>	<u>144,704</u>	<u>1,184,112</u>	<u>242,597</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable.....	4,694	357	5,051	2,806
Accrued payroll.....	—	64	64	469
Intergovernmental payable.....	548	—	548	—
Claims payable.....	2,680	9,992	12,672	232
Unemployment benefits payable.....	53,966	—	53,966	—
Obligations under securities lending.....	173,899	26,110	200,009	20,820
Interest payable.....	—	25	25	—
Due to other funds (Note 7).....	393	6	399	4,709
Due to component units (Note 7).....	—	—	—	601
Deferred revenue.....	10,110	4,772	14,882	2,540
Deposits payable.....	—	141	141	—
Bonds payable - current.....	—	235	235	—
Accrued vacation leave - current.....	—	33	33	201
Total current liabilities.....	<u>246,290</u>	<u>41,735</u>	<u>288,025</u>	<u>32,378</u>
Noncurrent Liabilities:				
Bonds payable, net.....	—	9,570	9,570	—
Accrued vacation leave.....	—	334	334	1,703
Total noncurrent liabilities.....	<u>—</u>	<u>9,904</u>	<u>9,904</u>	<u>1,703</u>
Total Liabilities.....	<u>246,290</u>	<u>51,639</u>	<u>297,929</u>	<u>34,081</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	—	38,267	38,267	87,312
Restricted for:				
Unemployment compensation.....	793,118	—	793,118	—
Other purposes.....	—	4,319	4,319	—
Unrestricted.....	—	50,479	50,479	121,204
Total Net Assets.....	<u>\$ 793,118</u>	<u>\$ 93,065</u>	<u>\$ 886,183</u>	<u>\$ 208,516</u>

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

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

For the Fiscal Year Ended June 30, 2002

Exhibit B-4

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			Governmental Activities — Internal Service Funds
	Unemployment Compensation Fund	Other Enterprise Funds	Total Enterprise Funds	
Operating Revenues:				
Employer unemployment contributions.....	\$ 433,364	\$ —	\$ 433,364	\$ —
Federal funds.....	375,908	—	375,908	—
Sales and services.....	—	1,221	1,221	215,043
Sales and services used as security for bonds.....	—	3,582	3,582	—
Rental and lease earnings.....	—	5,220	5,220	1,245
Fees, licenses and fines.....	—	7,564	7,564	—
Insurance premiums.....	—	9,846	9,846	15,189
Miscellaneous.....	—	44	44	290
Total operating revenues.....	<u>809,272</u>	<u>27,477</u>	<u>836,749</u>	<u>231,767</u>
Operating Expenses:				
Personal services.....	—	7,333	7,333	39,247
Supplies and materials.....	—	855	855	8,060
Services.....	—	5,407	5,407	96,573
Cost of goods sold.....	—	488	488	1,428
Depreciation/amortization.....	—	1,739	1,739	27,996
Claims.....	—	4,030	4,030	1,032
Unemployment benefits.....	1,333,075	—	1,333,075	—
Insurance and bonding.....	—	3,518	3,518	14,467
Other.....	—	1,188	1,188	31,517
Total operating expenses.....	<u>1,333,075</u>	<u>24,558</u>	<u>1,357,633</u>	<u>220,320</u>
Operating income (loss).....	<u>(523,803)</u>	<u>2,919</u>	<u>(520,884)</u>	<u>11,447</u>
Nonoperating Revenues (Expenses):				
Noncapital gifts, net.....	—	179	179	—
Investment earnings.....	58,531	4,129	62,660	3,273
Interest and fees on capital related debt.....	—	(240)	(240)	—
Insurance recoveries.....	—	—	—	365
Grants, aid and subsidies.....	—	(25)	(25)	—
Gain (loss) on sale of equipment.....	—	—	—	(88)
Miscellaneous.....	(3,643)	(595)	(4,238)	(403)
Total nonoperating revenues (expenses)...	<u>54,888</u>	<u>3,448</u>	<u>58,336</u>	<u>3,147</u>
Income (loss) before contributions..... and transfers.....	(468,915)	6,367	(462,548)	14,594
Capital contributions, net.....	—	1,121	1,121	7
Transfers in.....	209	1,201	1,410	2,163
Transfers out.....	(46,490)	(2,877)	(49,367)	(18,096)
Change in net assets.....	(515,196)	5,812	(509,384)	(1,332)
Net assets — July 1, as restated (Note 19).....	1,308,314	87,253	1,395,567	209,848
Net assets — June 30.....	<u>\$ 793,118</u>	<u>\$ 93,065</u>	<u>\$ 886,183</u>	<u>\$ 208,516</u>

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

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			Governmental Activities —
	Unemployment Compensation Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from customers.....	\$ 391,147	\$ 27,474	\$ 418,621	\$ 39,649
Receipts from federal agencies.....	375,486	—	375,486	—
Receipts from other funds.....	—	469	469	187,786
Payments to suppliers.....	—	(10,298)	(10,298)	(135,461)
Payments to employees.....	—	(7,288)	(7,288)	(39,672)
Payments for benefits and claims.....	(1,301,310)	(8,531)	(1,309,841)	(598)
Payments to other funds.....	—	(210)	(210)	(15,585)
Other receipts (payments).....	—	(181)	(181)	(111)
Net Cash Flows Provided (Used) by Operating Activities.....	<u>(534,677)</u>	<u>1,435</u>	<u>(533,242)</u>	<u>36,008</u>
Cash Provided From (Used For)				
Noncapital Financing Activities:				
Grants.....	—	(25)	(25)	—
Transfers from other funds.....	200	1,201	1,401	2,083
Transfers to other funds.....	(46,128)	(3,002)	(49,130)	(18,016)
Gifts.....	—	179	179	—
Total cash provided from (used for) noncapital financing activities.....	<u>(45,928)</u>	<u>(1,647)</u>	<u>(47,575)</u>	<u>(15,933)</u>
Cash Provided From (Used For)				
Capital Financing Activities:				
Acquisition and construction of capital assets.....	—	(5,665)	(5,665)	(17,960)
Proceeds from the sale of capital assets.....	—	—	—	837
Capital contributions.....	—	1,121	1,121	—
Principal paid on capital debt.....	—	(100)	(100)	—
Interest paid on capital debt.....	—	(420)	(420)	—
Payment to bond escrow agent.....	—	(42)	(42)	—
Insurance recoveries.....	—	—	—	365
Total cash provided from (used for) capital financing activities.....	<u>—</u>	<u>(5,106)</u>	<u>(5,106)</u>	<u>(16,758)</u>
Cash Provided From (Used For)				
Investment Activities:				
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	10,414	10,414	—
Purchase of non-State Treasurer investments.....	—	(4,746)	(4,746)	—
Redemptions from State Treasurer investment pool.....	—	—	—	3,000
Investment earnings.....	54,926	1,089	56,015	760
Total cash provided from (used for) investment activities.....	<u>54,926</u>	<u>6,757</u>	<u>61,683</u>	<u>3,760</u>
Net increase (decrease) in cash and cash equivalents.....	(525,679)	1,439	(524,240)	7,077
Cash and cash equivalents at July 1.....	1,195,752	33,651	1,229,403	56,295
Cash and cash equivalents at June 30.....	<u>\$ 670,073</u>	<u>\$ 35,090</u>	<u>\$ 705,163</u>	<u>\$ 63,372</u>

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

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2002

Exhibit B-5

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			Governmental Activities —
	Unemployment Compensation Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:				
Operating income (loss).....	\$ (523,803)	\$ 2,919	\$ (520,884)	\$ 11,447
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation/amortization.....	—	1,739	1,739	27,996
Restatements and adjustments to cash.....	(994)	—	(994)	1,409
Nonoperating miscellaneous income/expense.....	—	13	13	17
(Increases) decreases in assets:				
Receivables.....	(46,909)	405	(46,504)	(3,072)
Due from other funds.....	—	—	—	(1,441)
Due from fiduciary funds.....	—	—	—	(8)
Due from component units.....	—	—	—	(683)
Inventories.....	—	110	110	5
Prepaid items.....	—	531	531	3,940
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities.....	1,967	(4,400)	(2,433)	(1,263)
Due to other funds.....	—	(2)	(2)	(3,137)
Due to component units.....	—	—	—	(302)
Unemployment benefits payable.....	33,191	—	33,191	—
Accrued vacation leave.....	—	(3)	(3)	(65)
Deferred revenue.....	1,871	60	1,931	1,165
Deposits payable.....	—	63	63	—
Total cash provided from (used for) operations.....	<u>\$ (534,677)</u>	<u>\$ 1,435</u>	<u>\$ (533,242)</u>	<u>\$ 36,008</u>
Noncash Investing, Capital, and Financing Activities:				
Noncash distributions from the State Treasurer				
Long-Term Investment Portfolio.....	\$ —	\$ 1,953	\$ 1,953	\$ 1,517
Assets acquired through the assumption of a liability.....	173,899	26,110	200,009	20,820
Change in fair value of investments.....	—	1,027	1,027	418

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2002

Exhibit B-6

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents (Note 3).....	\$ 402,260	\$ 36,180	\$ 96,057	\$ 2,079,844
Investments (Note 3):				
Annuity contracts.....	252,831	—	—	—
Bank investment contracts.....	358,953	—	—	—
U.S. Government securities.....	—	—	1,520	—
State and municipal securities.....	—	—	2,300	—
Mutual funds.....	1,919,142	—	—	—
Certificates of deposit.....	—	—	63,977	462
State Treasurer investment pool.....	53,784,310	490,843	—	461,255
Securities lending collateral (Note 3).....	9,831,736	436,108	510	1,434,424
Receivables:				
Taxes receivable.....	—	—	—	126,912
Accounts receivable.....	5,603	—	—	532
Intergovernmental receivables.....	—	—	—	3,068
Interest receivable.....	3,823	7,246	2	6,043
Contributions receivable.....	110,095	—	—	—
Due from other funds (Note 7).....	—	—	—	8,673
Notes receivable.....	109,466	—	—	—
Inventories.....	—	—	—	301
Sureties.....	—	—	557,883	29,674
Capital assets, net.....	3	—	—	—
Total Assets.....	<u>66,778,222</u>	<u>970,377</u>	<u>722,249</u>	<u>4,151,188</u>
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable.....	23,795	—	—	884
Intergovernmental payables.....	—	—	—	583,207
Benefits payable.....	283,700	—	—	—
Distributions payable.....	—	2,021	—	—
Medical claims payable.....	161,500	—	—	—
Obligations under securities lending.....	9,831,736	436,108	510	1,434,424
Due to other funds (Note 7).....	9	—	—	5,672
Deferred revenue.....	11,327	—	—	—
Deposits payable.....	—	—	—	1,742
Funds held for others.....	—	—	—	2,125,259
Accrued vacation leave.....	20	—	—	—
Total Liabilities.....	<u>10,312,087</u>	<u>438,129</u>	<u>510</u>	<u>4,151,188</u>
Net Assets:				
Held in trust for:				
Employees' pension and other benefits.....	56,466,135	—	—	—
Pool participants.....	—	532,248	—	—
Individuals, organizations and other governments.....	—	—	721,739	—
Total Net Assets.....	<u>\$ 56,466,135</u>	<u>\$ 532,248</u>	<u>\$ 721,739</u>	<u>\$ —</u>

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002

Exhibit B-7

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Funds
Additions:			
Contributions:			
Employer.....	\$ 1,598,325	\$ —	\$ —
Members.....	1,326,737	—	—
Trustee deposits.....	—	—	137,602
Other contributions.....	18,854	—	—
Total contributions.....	<u>2,943,916</u>	<u>—</u>	<u>137,602</u>
Investment Income:			
Investment earnings (loss).....	(2,277,386)	30,247	3,207
Less investment expenses.....	(254,728)	(7,378)	(10)
Net investment income (loss).....	<u>(2,532,114)</u>	<u>22,869</u>	<u>3,197</u>
Pool share transactions:			
Reinvestment of dividends.....	—	22,553	—
Net share purchases/(redemptions).....	—	12,546	—
Net pool share transactions.....	<u>—</u>	<u>35,099</u>	<u>—</u>
Other additions:			
Fees, licenses and fines.....	8,303	—	—
Interest earnings on loans.....	8,913	—	—
Miscellaneous.....	1,357	—	—
Total other additions.....	<u>18,573</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>430,375</u>	<u>57,968</u>	<u>140,799</u>
Deductions:			
Claims and benefits.....	3,640,534	—	—
Refund of contributions.....	119,993	—	—
Distributions paid and payable.....	—	22,869	—
Payments in accordance with trust arrangements.....	—	—	119,715
Administrative expenses.....	50,432	—	—
Other deductions.....	125	—	25
Total deductions.....	<u>3,811,084</u>	<u>22,869</u>	<u>119,740</u>
Change in net assets.....	<u>(3,380,709)</u>	<u>35,099</u>	<u>21,059</u>
Net assets — July 1, as restated (Note 19).....	59,846,844	497,149	700,680
Net assets — June 30.....	<u>\$ 56,466,135</u>	<u>\$ 532,248</u>	<u>\$ 721,739</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. Financial Reporting Entity

The accompanying government-wide financial statements present the State of North Carolina and its component units. The State of North Carolina, as primary government, consists of all organizations that make up its legal entity. All funds, organizations, agencies, boards, commissions, and authorities that are not legally separate are, for financial reporting purposes, part of the primary government. The primary government has a separately elected governing body (the General Assembly) and the primary government must be both legally separate and fiscally independent. Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the State. The State's defined benefit pension plans, deferred compensation plans, and other employee benefit plans, being fiduciary in nature, were not evaluated as potential component units but instead are reported as fiduciary funds.

All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. The "Component Units" column in the accompanying financial statements include the financial data of the following entities:

Major Component Units**The Golden LEAF (Long-term Economic Advancement Foundation), Inc.**

The Golden LEAF, Inc. (the "Foundation") is a legally separate not-for-profit corporation ordered to be created by the Consent Decree and Final Judgment in the State of North Carolina vs. Philip Morris, et al. The Foundation was established to receive and distribute fifty percent of the tobacco settlement funds allocated to North Carolina, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. The Foundation is governed by a fifteen-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 fifty percent of its share of the settlement to the Foundation, creating a financial benefit/burden relationship.

University of North Carolina System

The Board of Governors of the consolidated University of North Carolina (UNC) System is a legally separate body, composed of 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 the University of North Carolina Health Care System (UNCHCS). 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. UNCHCS is governed by a separate board of directors. Funding for the UNC System is accomplished by State appropriations, tuition and fees, sales and services, federal grants, state grants, and private donations and grants.

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

UNC General Administration
 Appalachian State University
 East Carolina University
 Elizabeth City State University
 Fayetteville State University
 North Carolina Agricultural and Technical State University
 North Carolina Central University
 North Carolina 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
 University of North Carolina Health Care System

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. However, the State is financially accountable for these institutions because the State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no 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.

NOTES TO THE FINANCIAL STATEMENTS

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

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 has the ability to impose its will since it 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 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.

Other Component Units

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 trust fund for tobacco growers and quota holders in 14 grower states, including North Carolina. The amount allocated for distribution in North Carolina is intended to be paid out in the form of direct payments to qualified growers and quota holders through the year 2010. 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 fourteen-member board. Three members serve by virtue of their positions as state officials and nine members are appointed by either the Governor, President Pro Tempore of the Senate, or the Speaker of the House. Each year, the board determines the split of the distributable amount between the quota owners and the growers. The State has the ability to impose its will since appointed members may be removed at will.

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; 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. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

North Carolina 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 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

NOTES TO THE FINANCIAL STATEMENTS

interests of the State. The Railroad is governed by a fourteen member board, all of whom are elected by shares held by the State. A financial benefit/burden relationship exists between the State and the Railroad. Also, the State is financially accountable since the State's intent in owning the Railroad's stock is to directly enhance its ability to provide governmental services.

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 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 seventeen 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 fifteen 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 fifteen 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.

Availability of Financial Statements

Complete financial statements for the following component units can be obtained from the Office of the State Auditor, 2 South Salisbury Street, 20601 Mail Service Center, Raleigh, N.C. 27699-0601.

Constituent institutions in the UNC System
Community colleges
North Carolina State Ports Authority
North Carolina Partnership for Children, Inc.
North Carolina Ports Railway Commission

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

The Golden LEAF, Inc. 800 Tiffany Boulevard, Suite 200 Rocky Mount, NC 27804	North Carolina Railroad Company 2809 Highwoods Boulevard, Suite 100 Raleigh, NC 27604-1000
N.C. Phase II Tobacco Certification Entity, Inc. 3000 Highwoods Blvd., Suite 315 Raleigh, N.C. 27604	Northeastern N.C. Regional Economic Development Commission 119 West Water Street Edenton, N.C. 27932
Western N.C. Regional Economic Development Commission P.O. Box 1258 Arden, N.C. 28704	Southeastern N.C. Regional Economic Development Commission P.O. Box 2556 Elizabethtown, N.C. 28337
N.C. Housing Finance Agency P.O. Box 28066 Raleigh, N.C. 27611-8066	State Education Assistance Authority P.O. Box 2688 Chapel Hill, N.C. 27515-2688
N.C. Agricultural Finance Authority c/o N.C. Department of Agriculture and Consumer Services P.O. Box 27647 Raleigh, NC 27611	N.C. Global Transpark Authority P.O. Box 1476 Kinston, N.C. 28503-1476

NOTES TO THE FINANCIAL STATEMENTS**B. Basis of Presentation**

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. In both the government-wide and proprietary fund financial statements, the State also applies Statements and Interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements of the North Carolina Railroad Company (Railroad), a for-profit corporation (discretely presented component unit), have been prepared in accordance with FASB pronouncements.

The financial statements are presented as of and for the fiscal year ended June 30, 2002, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2001, 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, 2001. Occupational licensing boards have financial statements with various fiscal year ending dates.

The basic financial statements include both government-wide (based on the State as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The statement of net assets and the statement of activities display information on all the nonfiduciary activities of the primary government (the State) and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the State’s own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between functions. Elimination of these charges would misstate both the expenses of the purchasing function and the program revenues of the selling function. These statements distinguish between the governmental and business-type activities of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable

activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Certain charges to other funds or programs for “centralized” expenses also include an overhead markup that is included in direct expenses. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity (including fees, fines, and forfeitures) and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity (including restricted investment earnings or losses). Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Unrestricted resources internally dedicated by the State’s governing body (General Assembly) are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Fund Financial Statements

The fund financial statements provide information about the State’s funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund.

This is the State’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Highway Fund

This fund accounts for most of the activities of the Department of Transportation, including the construction and maintenance of the State primary, secondary, and urban road systems. In addition, it supports areas such as the N.C. Ferry System, the Division of Motor Vehicles, public transportation, and railroad operations. The fund provides revenue to other State agencies to support initiatives such as the State Highway Patrol and driver’s education. The principal revenues of the Highway Fund are motor fuels taxes, motor vehicle registration fees, driver’s license fees, and federal aid. A portion of the motor fuel taxes is distributed to municipalities for local street projects.

Highway Trust Fund

This fund was established by legislation (Chapter 692 of the 1989 Session Laws) to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. Additionally, this fund provides supplemental allocations for secondary road

NOTES TO THE FINANCIAL STATEMENTS

construction and supplemental assistance to municipalities for local street projects. The fund also makes transfers to the General Fund and the Highway Fund. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise fund:

Unemployment Compensation Fund

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

Additionally, the State reports the following fund types:

Internal Service Funds

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

Pension and Other Employee Benefits Trust Funds

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

Investment Trust Fund

This fund accounts for the external portion of the Investment Pool sponsored by the Department of State Treasurer.

Private-purpose Trust Funds

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

Agency Funds

These funds account for sales tax collections held on behalf of local governments, resources held by the Administrative Office of the Courts for distribution to designated beneficiaries, the Investment Pool's securities lending assets and liabilities allocated to participating component units, and other resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The State considers revenues reported in the governmental funds to be available if they are collectible within thirty-one days after year-end. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds, and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the State. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, obligations for workers'

NOTES TO THE FINANCIAL STATEMENTS

compensation, and arbitrage rebate liabilities, which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are contributed to a plan.

D. Cash and Cash Equivalents

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

E. Investments

This classification includes deposits held by the State Treasurer in certain long-term investment portfolios (see Note 3) as well as investments held separately by the State and its component units. Investments are generally reported at fair value. Additional investment valuation information is provided in Note 3. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. Securities Lending

Cash and securities received as collateral on securities lending transactions are reported as assets in the accompanying financial statements. Liabilities resulting from the securities lending transactions are also reported. Additional disclosures about the State Treasurer's securities lending transactions are provided in Note 3.

G. Receivables and Payables

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

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

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

H. Inventories and Prepaid Items

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

Except for maintenance and construction inventories of the State Highway Fund, inventories in the State's governmental funds are recorded as expenditures when purchased. In the fund financial statements, inventories are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All other inventories of the State and its component units are recognized as expenses or expenditures when consumed.

Certain payments to vendors and grantees reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

I. Restricted/Designated Assets

In the enterprise funds, unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. These assets are also classified as noncurrent since they cannot be used for current operations (i.e., are restricted for the acquisition/construction of capital assets). Unrestricted assets that are internally designated for capital purposes are also classified as noncurrent. Certain other assets are classified as restricted because their use is limited by statute.

J. Capital Assets

Capital assets, which include property, plant, equipment; easements; and infrastructure assets (e.g., State highway network, utility systems, and similar items), are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The State highway network constructed prior to July 1, 2001 is recorded at estimated historical cost.

NOTES TO THE FINANCIAL STATEMENTS

The initial estimated historical cost of the network is based on construction expenditures from 1953 to 2001 reported by the Department of Transportation less amounts estimated for the cost of right-of-ways and land improvements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Generally, capital assets are defined by the State and component units as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of two or more years. Exceptions are the USS N.C. Battleship Commission (an enterprise fund) and certain component units (Golden LEAF Foundation, N.C. Housing Finance Agency, N.C. Phase II Tobacco Certification Entity, Inc., N.C. State Ports Authority, N.C. Railroad Company, and North Carolina Regional Economic Development Commissions), which maintain minimum thresholds of \$1,000 or below. 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.

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

<u>Asset Class</u>	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings	Straight-line	10-50 years
Machinery and Equipment	Straight-line	3-25 years
	Units of output for motor vehicles	90,000 miles
Intangible assets.....	Straight-line	2-40 years
Art, literature, and other artifacts.....	Straight-line	6-25 years
General infrastructure	Straight-line	10-75 years
State highway network.....	Composite	50 years

For the State highway network, depreciation is based on a weighted average of the estimated useful lives of dissimilar assets in the network (e.g., subsurface foundations, roadway surfaces, bridges, traffic control devices, guardrails, markings, signage, etc.).

K. Tax Refund Liabilities

Tax refund liabilities consist primarily of accrued income and sales and use tax refunds due to taxpayers. During the calendar year, the State collects employee withholdings and taxpayers' payments for income taxes. At June 30, the State estimates the amount it owes taxpayers for income tax overpayments during the preceding six months. Sales and use

tax refund liabilities are also estimated at June 30. These liabilities are recorded as "Tax refunds payable".

L. Compensated Absences

Employees of the State and component units are permitted to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Also, when determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements.

The State's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

There is no liability for unpaid accumulated sick leave because the State has no obligation to pay sick leave upon employee termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities, and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Debt premiums of the State are deferred and amortized over the life of the debt using the effective interest method. Debt premiums, discounts, and deferred losses on refundings of the University of North Carolina System (component unit) are generally deferred and amortized using the straight-line method, if material. Long-term debt is reported net of the applicable debt premium, discount, and/or deferred loss on refunding. Debt issuance costs of the State and the University of North Carolina System (component unit) are expensed. Debt issuance costs of the NC Housing Finance Agency and the NC State Education Assistance Authority (component units) are deferred and amortized over the life of the debt using the straight-line method.

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 government-wide financial statements at its net or accreted value rather than at face value.

NOTES TO THE FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize debt premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and premiums received are reported as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

N. Sureties

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

O. Net Assets/Fund Balance

Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. Such internally dedicated net assets are presented as unrestricted.

Under some programs, the State has the option of using either restricted or unrestricted resources to make certain payments. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use receipts first (which include restricted and unrestricted resources), then state appropriations as necessary. Receipts are defined as all funds collected by an agency or institution other than State appropriations. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based within the departmental management system in place at the agency or institution. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. Designations of fund balance represent tentative management plans that are subject to change (See Note 8, Fund Balance Reserves and Designations).

P. Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Proprietary fund operating revenues result from exchange transactions associated with the principal activity of

the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as noncapital grants and investment earnings, result from nonexchange transactions or ancillary activities. Capital contributions are reported separately, after nonoperating revenues and expenses.

Q. Food 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Net Assets / Fund Balance Deficit

Primary Government

At June 30, 2002, the General Fund has a fund balance deficit of \$348.551 million, compared to a deficit balance of \$32.433 million the previous year. The slowdown in the economy has led to a decline in the rate of growth in taxes and an increase in spending for governmental services.

At June 30, 2002, the following internal service fund reported a net assets deficit: Courier Service, \$468 thousand.

At June 30, 2002, the following pension and other employee benefit trust funds reported net assets deficits: State Health Plan, \$99.407 million and Disability Income Plan of North Carolina, \$1.376 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to deposit money with the State Treasurer. Expenditures for the primary government and certain component units are made by warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial 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; asset-backed securities bearing specific ratings and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

External Investment Pool

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for 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 an equity-based trust. The State's pension trust funds are the sole participants in the portfolio.

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

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 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, 2002**

Assets:	
Cash and cash equivalents.....	\$ 507,376
Other assets.....	491,982
Investments.....	<u>76,101,094</u>
Total assets.....	<u>77,100,452</u>
Liabilities:	
Distributions payable.....	28,667
Obligations under securities lending.....	<u>15,577,252</u>
Total liabilities.....	<u>15,605,919</u>
Net Assets:	
Internal:	
Primary government.....	58,980,871
Component units.....	1,981,414
External.....	<u>532,248</u>
Total net assets.....	<u>\$ 61,494,533</u>

**Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002**

Decrease in net assets from operations:	
Revenues:	
Investment income.....	\$ (1,510,276)
Expenses:	
Securities lending expenses.....	336,466
Investment management.....	<u>39,689</u>
Total expenses.....	<u>376,155</u>
Net decrease in net assets resulting from operations.....	(1,886,431)
Distributions to participants:	
Distributions paid and payable.....	(6,924,026)
Share transactions:	
Reinvestment of distributions.....	6,927,679
Net share purchases.....	<u>(1,829,964)</u>
Total decrease in net assets.....	(3,712,742)
Net assets:	
Beginning of year.....	<u>65,207,275</u>
End of year.....	<u>\$ 61,494,533</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 pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions. The State reports the assets and liabilities arising from securities lending transactions for component units as part of the State's agency funds, rather than allocate them to the component units.

Investments in nonparticipating contracts, such as nonnegotiable certificates of deposit, are reported at cost. Other investments held in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value. All

other investments are reported at fair value. Fair values are determined daily for the Long-term Investment portfolio, monthly for the Equity Investment portfolio 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 trusts, venture capital limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2002, \$47,684,043 of investment income associated with other funds was credited 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 secured by insurance and amounts protected by securities. The State Treasurer maintains no records of financial institution balances of local governments collateralized in the pool with State Treasurer

NOTES TO THE FINANCIAL STATEMENTS

deposits. Since the amounts of local government deposits in the pooling method 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, 2002, the deposits maintained by the State Treasurer consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 83,167	\$ 87,240
Time.....	159,746	159,746
Total Deposits.....	<u>\$ 242,913</u>	<u>\$ 246,986</u>

At year end, 94 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</u>
	<u>1</u>	<u>3</u>	<u>Amount</u>
Investment Pool			
Investments Categorized:			
U.S. government and agency securities:			
Not on loan.....	\$ 1,603,620	\$ 746,727	\$ 2,350,347
On loan for securities collateral.....	279,484	—	279,484
Corporate bonds and notes.....	9,252,485	1,234,909	10,487,394
Asset backed securities.....	5,178,829	10,314,880	15,493,709
Repurchase agreements.....	264,463	3,280,736	3,545,199
International bonds.....	359,706	—	359,706
Domestic equities.....	2,255	—	2,255
Total Investments Categorized.....	<u>\$ 16,940,842</u>	<u>\$ 15,577,252</u>	32,518,094
Investments Not Categorized:			
Equity-based trust.....			27,032,435
Venture capital investments.....			39,978
Real estate trust funds.....			1,510,996
Investments held by broker/dealers under securities loans with cash collateral:			
U.S. government and agency securities.....			14,696,855
Corporate bonds and notes.....			528,205
International bonds.....			38,994
Total Investment Pool.....			<u>\$ 76,365,557</u>

During the year other investment types may have been owned by the Investment Pool, but all material investment types and categories are disclosed above. 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.....	\$ 16,579,959	\$ 15,325,162	Zero - 9.125%	1 day - 29 years
Corporate bonds and notes.....	9,780,690	9,578,323	5.0 - 8.875%	4 years - 41 years
Asset backed securities.....	5,178,829	5,042,999	6.0 - 9.0%	15 years - 30 years
Securities purchased with cash collateral under securities lending program:				
Asset backed securities.....	10,314,880	Not applicable	1.88 - 7.15%	15 days - 3 years
Corporate bonds and notes.....	1,234,909	Not applicable	1.86 - 2.0%	46 days - 1 year
U.S. government and agency securities.....	746,727	Not applicable	1.77 - 2.08%	122 days - 241 days
Equity-based trust.....	27,032,435	Not applicable	Not applicable	Not applicable

NOTES TO THE FINANCIAL STATEMENTS

The equity-based trust is an investment in a trust fund managed by third party money managers. The trust fund invests in common stocks and other equity-type securities. For this investment, the State Treasurer does not own individual securities but rather has ownership in the trust.

Included in the "asset backed 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.

Included in the equity-based trust are stock futures and foreign exchange forward contracts. The trust has entered into these and similar contracts to deliver returns similar to the appropriate industry benchmarks. Derivative positions are accounted for both by the custodian and the investment manager on separate accounting platforms. Both total exposure and realized and unrealized gains and losses are calculated on a daily basis. The positions are reconciled daily with the clearing brokers. The trust enters into these transactions with industry standard brokerage account forms that are binding by all affected parties. The futures exchanges mediate counterparty credit risk with daily mark-to-market valuations of all futures positions. The money movements are handled by a clearing corporation affiliated with each exchange. Market risks associated with these transactions are the same as the underlying securities.

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
Repurchase agreements...	\$ 663,282	\$ 663,282
Total Investments.....	<u>\$ 663,282</u>	<u>\$ 663,282</u>

The Bond Proceeds Investment Accounts also invested in U.S. government and agency securities and commercial paper during the year, but such assets were not owned at year-end.

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, 2002, the weighted average maturity of unmatched investments was approximately 22 days.

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

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.

Primary Government

At June 30, 2002, 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.....	\$ 20,098	\$ 22,040
Time.....	1,350,343	1,363,335
Total Deposits.....	<u>\$ 1,370,441</u>	<u>\$ 1,385,375</u>

Of these bank balances, \$433.290 million was covered by federal depository insurance, \$449.675 million by collateral held by the escrow agent in the depositor's name, and \$502.410 million was uninsured and uncollateralized.

NOTES TO THE FINANCIAL STATEMENTS**Component Units****(University of North Carolina System, Golden LEAF, State Education Assistance Authority, North Carolina Housing Finance Agency, and Community Colleges)**

At June 30, 2002, the deposits maintained by the University of North Carolina System consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 36,886	\$ 14,812
Time.....	12,091	16,910
Total Deposits.....	<u>\$ 48,977</u>	<u>\$ 31,722</u>

Of these bank balances, \$4.381 million was covered by federal depository insurance, \$0.965 million by collateral held by the escrow agent in the depositor's name, \$2.751 million was covered by collateral held in the pledging bank's trust department in the depositor's name and \$23.625 million was uninsured and uncollateralized.

At June 30, 2002, the deposits maintained by the Golden LEAF consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 489	\$ 1,157
Time.....	308	308
Total Deposits.....	<u>\$ 797</u>	<u>\$ 1,465</u>

Of these bank balances, \$0.500 million was covered by federal depository insurance and \$0.965 million was uninsured and uncollateralized.

At June 30, 2002, the deposits maintained by other major component units consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 3,585	\$ 6,678
Time.....	55,379	65,510
Total Deposits.....	<u>\$ 58,964</u>	<u>\$ 72,188</u>

Of these bank balances, \$9.406 million was covered by federal depository insurance, \$13.920 million by collateral held by the escrow agent in the depositor's name, \$41.009 million was covered under the State Treasurer's collateral pool and \$7.853 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, 2002. 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.

NOTES TO THE FINANCIAL STATEMENTS

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

	<i>Category</i>			<i>Carrying</i>
	1	2	3	<i>Amount</i>
<i>Investments Categorized:</i>				
U.S. Government securities.....	\$ 1,520	\$ 562	\$ 213	\$ 2,295
State and municipal securities.....	2,300	—	—	2,300
Corporate bonds.....	—	—	694	694
Corporate common stock.....	22,183	—	1,162	23,345
<i>Total Investments Categorized.....</i>	\$ 26,003	\$ 562	\$ 2,069	28,634
<i>Investments Not Categorized:</i>				
Money market funds.....				5,861
Mutual funds.....				1,921,393
Annuity contracts.....				252,831
Total Investments.....				\$ 2,208,719

Component Units**(University of North Carolina System, Golden LEAF, State Education Assistance Authority, North Carolina Housing Finance Agency, and Community Colleges)**

The component units of the State are required to follow certain investment guidelines as outlined by the General Statutes.

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

The General Statutes place no specific investment restrictions on the University of North Carolina System or the Golden LEAF. 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 University of North Carolina System were as follows (dollars in thousands):

	Category			Carrying Amount
	1	2	3	
Investments Categorized:				
U.S. Government securities.....	\$ 112,381	\$ 25,310	\$ 4,035	\$ 141,726
Collateralized mortgage obligations.....	69,191	11,745	—	80,936
State and municipal securities.....	5,313	60	—	5,373
Corporate bonds.....	76,382	15,744	31	92,157
Corporate common stock.....	171,488	70,758	698	242,944
Repurchase agreements.....	—	—	1,602	1,602
Commercial paper.....	6,587	—	—	6,587
International corporate bonds.....	1,231	—	—	1,231
International government bonds.....	801	—	—	801
International equity securities.....	1,733	1,104	—	2,837
Total Investments Categorized.....	\$ 445,107	\$ 124,721	\$ 6,366	576,194
Investments Not Categorized:				
Money market funds.....				141,848
Mutual funds.....				681,209
Annuity contracts.....				143
Real estate.....				34,741
Real estate investment trust.....				18,474
Limited partnerships.....				421,551
Investments held by broker-dealers under reverse repurchase agreements:				
U.S. Government securities.....				34,486
Pooled investments.....				219
Other investments.....				33,048
Total Investments.....				\$ 1,941,913

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

	Category	Carrying
	3	Amount
Investments Categorized:		
U.S. Government securities.....	\$ 25,973	\$ 25,973
Corporate bonds.....	31,146	31,146
Corporate common stock.....	97,646	97,646
Total Investments Categorized.....	\$ 154,765	154,765
Investments Not Categorized:		
Money market funds.....		9,912
Real estate.....		19,049
Limited partnerships.....		20,282
Other investments.....		31,942
Total Investments.....		\$ 235,950

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

	Category			Carrying Amount
	1	2	3	
Investments Categorized:				
U.S. Government securities.....	\$ 93,944	\$ —	\$ 45	\$ 93,989
Corporate bonds.....	210	1,466	5	1,681
Corporate common stock.....	1,698	3,215	5,569	10,482
Repurchase agreements.....	229,134	—	—	229,134
Total Investments Categorized.....	\$ 324,986	\$ 4,681	\$ 5,619	335,286
Investments Not Categorized:				
Money market funds.....				1,130
Mutual funds.....				33,517
Real estate.....				905
N.C. Capital Management Trust.....				790
Other investments.....				27
Total Investments.....				\$ 371,655

NOTES TO THE FINANCIAL STATEMENTS

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.

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

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 fair value of the

securities underlying reverse repurchase agreements normally exceeds the cash received, providing dealers a margin against a decline in fair 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 fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The credit exposure at year-end was \$324,396. All sales under reverse repurchase agreements are for fixed terms. The University's practice for investing the proceeds of reverse repurchase agreements is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2002 is presented below (dollars in thousands).

Governmental Activities:	Balance, restated			Balance
	July 1, 2001	Additions	Deductions	June 30, 2002
Capital Assets, non-depreciable:				
Land	\$ 6,626,188	\$ 603,016	\$ 19,762	\$ 7,209,442
Art, literature, and other artifacts	28,531	—	—	28,531
Construction in progress	1,436,410	1,294,144	1,275,639	1,454,915
Capital Assets, depreciable:				
Buildings	1,822,980	51,231	11,919	1,862,292
Machinery and equipment	1,434,927	82,623	89,533	1,428,017
Intangibles	201,999	6,440	105	208,334
Art, literature, and other artifacts	97	—	—	97
General infrastructure	170,350	5,133	2,968	172,515
State highway system	14,510,050	1,231,404	—	15,741,454
Total at historical cost	<u>26,231,532</u>	<u>3,273,991</u>	<u>1,399,926</u>	<u>28,105,597</u>
Less accumulated depreciation for:				
Buildings	(494,932)	(42,188)	(4,716)	(532,404)
Machinery and equipment	(785,035)	(143,585)	(76,485)	(852,135)
Intangibles	(96,691)	(5,056)	(42)	(101,705)
Art, literature, and other artifacts	(29)	(5)	—	(34)
General infrastructure	(76,816)	(8,118)	(128)	(84,806)
State highway system	(3,880,104)	(314,829)	—	(4,194,933)
Total accumulated depreciation	<u>(5,333,607)</u>	<u>(513,781)</u>	<u>(81,371)</u>	<u>(5,766,017)</u>
Governmental activities capital assets, net	<u>\$ 20,897,925</u>	<u>\$ 2,760,210</u>	<u>\$ 1,318,555</u>	<u>\$ 22,339,580</u>

For governmental activities, the July 1, 2001 the capital assets balance as previously reported was \$3.8 billion. As a result of GASB Statement No. 34 implementation, July 1 total capital assets at historical cost were restated as \$26.2 billion. The restatement included \$22.2 billion of North Carolina Department of Transportation infrastructure including land, construction in progress, and the State highway system. Internal service fund assets of \$335 million were also included in the restatement related to governmental activities.

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities:	Balance, restated			Balance
	July 1, 2001	Additions	Deductions	June 30, 2002
Capital Assets, non-depreciable:				
Land	\$ 2,563	\$ —	\$ —	\$ 2,563
Construction in progress	10,431	5,577	333	15,675
Capital Assets, depreciable:				
Buildings	30,404	1	—	30,405
Machinery and equipment	3,046	187	—	3,233
General infrastructure	18,543	333	—	18,876
Total at historical cost	<u>64,987</u>	<u>6,098</u>	<u>333</u>	<u>70,752</u>
Less accumulated depreciation for:				
Buildings	(13,220)	(810)	(1)	(14,029)
Machinery and equipment	(2,618)	(75)	(176)	(2,517)
General infrastructure	(10,823)	(1,029)	(4)	(11,848)
Total accumulated depreciation	<u>(26,661)</u>	<u>(1,914)</u>	<u>(181)</u>	<u>(28,394)</u>
Business-type activities capital assets, net	<u>\$ 38,326</u>	<u>\$ 4,184</u>	<u>\$ 152</u>	<u>\$ 42,358</u>

For *business-type activities*, the July 1, 2001 the capital assets balance for proprietary funds as previously reported was \$401 million. As a result of GASB Statement No. 34 implementation, July 1 capital assets at historical cost were restated as \$65 million. The restated amount reflects the restatement of \$335 million of internal service fund assets now included in governmental activities.

Depreciation expense was charged to functions/programs of the primary government as follows:
Governmental activities:

General government	\$ 62,669
Primary and secondary	1,039
Health and human services	12,013
Economic development	2,231
Environment and natural resources	22,289
Public safety	38,374
Transportation	371,936
Agriculture	3,230
Total depreciation expense	<u>\$ 513,781</u>

Business-type activities:

Town of Butner Water and Sewer	\$ 619
N.C. State Fair	469
USS North Carolina Battleship Commission	307
Agricultural Farmers Market	455
Other business-type activities	64
Total depreciation expense	<u>\$ 1,914</u>

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System and Community Colleges). Capital asset activity for the University of North Carolina System and Community Colleges for the fiscal year ended June 30, 2002, was as follows:

University of North Carolina System:	Balance, restated			Balance
	July 1, 2001	Additions	Deductions	June 30, 2002
Capital Assets, non-depreciable:				
Land	\$ 122,199	\$ 7,262	\$ 111	\$ 129,350
Art, literature, and other artifacts	116,197	3,417	34,761	84,853
Construction in progress	445,099	423,130	222,064	646,165
Capital Assets, depreciable:				
Buildings	3,314,171	226,098	9,568	3,530,701
Machinery and equipment	1,033,704	131,486	77,053	1,088,137
Intangibles	1,000	—	—	1,000
Art, literature, and other artifacts	945	460	7	1,398
General infrastructure	524,209	34,254	204	558,259
Total at historical cost	5,557,524	826,107	343,768	6,039,863
Less accumulated depreciation for:				
Buildings	(1,181,590)	(91,952)	(3,215)	(1,270,327)
Machinery and equipment	(664,932)	(117,462)	(98,115)	(684,279)
Art, literature, and other artifacts	(253)	(125)	(7)	(371)
General infrastructure	(180,028)	(19,869)	(210)	(199,687)
Total accumulated depreciation	(2,026,803)	(229,408)	(101,547)	(2,154,664)
University of North Carolina System capital assets, net	<u>\$ 3,530,721</u>	<u>\$ 596,699</u>	<u>\$ 242,221</u>	<u>\$ 3,885,199</u>

For the **University of North Carolina System**, the July 1, 2001 the capital assets balance as previously reported was \$5.9 billion. As a result of GASB Statement No. 34 implementation, July 1 total capital assets at historical cost were restated as \$5.6 billion. Art, literature, and artifacts were reduced by \$614 million. Buildings were increased by \$130 million, and machinery and equipment increased by \$201 million.

Community Colleges:	Balance, restated			Balance
	July 1, 2001	Additions	Deductions	June 30, 2002
Capital Assets, non-depreciable:				
Land	\$ 69,118	\$ 3,412	\$ 21	\$ 72,509
Art, literature, and other artifacts	9,227	55	7,868	1,414
Construction in progress	68,210	69,839	47,579	90,470
Capital Assets, depreciable:				
Buildings	993,690	55,037	1,093	1,047,634
Machinery and equipment	144,812	211	1,634	143,389
Art, literature, and other artifacts	1,988	3,097	233	4,852
General infrastructure	48,241	14,802	6,874	56,169
Total at historical cost	1,335,286	146,453	65,302	1,416,437
Less accumulated depreciation for:				
Buildings	(270,536)	(33,593)	(320)	(303,809)
Machinery and equipment	(75,052)	(12,700)	(4,457)	(83,295)
Art, literature, and other artifacts	(8)	(3)	—	(11)
General infrastructure	(20,868)	(2,238)	(249)	(22,857)
Total accumulated depreciation	(366,464)	(48,534)	(5,026)	(409,972)
Community Colleges capital assets, net	<u>\$ 968,822</u>	<u>\$ 97,919</u>	<u>\$ 60,276</u>	<u>\$ 1,006,465</u>

For the **community colleges**, the July 1, 2001 the capital assets balance as previously reported was \$1.4 billion. As a result of GASB Statement No. 34 implementation, July 1 total capital assets at historical cost were restated as \$1.3 billion. Art, literature, and artifacts were reduced by \$60 million. Buildings were increased by \$30 million, and construction in progress was decreased by \$34 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: 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, 2002, total operating lease expenditures were \$59.2 million for Primary Government, \$26.9 million for Universities, and \$4.2 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2002 are (dollars in thousands):

Fiscal Year	Operating Leases			Capital Leases		
	Primary Government	Component Units		Governmental Activities	Component Units	
		University of North Carolina System	Community Colleges		University of North Carolina System	Community Colleges
2003	\$ 43,967	\$ 15,575	\$ 4,076	\$ 62	\$ 878	\$ 303
2004	35,626	11,967	3,120	62	788	288
2005	27,004	9,584	2,201	62	455	215
2006	23,038	5,565	487	62	169	213
2007	14,794	2,058	156	26	13	221
2008 - 2012	20,350	4,147	—	—	—	1,238
2013 - 2017	1,750	59	—	—	—	279
2018 - 2022	1,750	41	—	—	—	—
2023 - 2027	1,750	24	—	—	—	—
Total Future Minimum Lease Payments.....	\$ 170,029	\$ 49,020	\$ 10,040	274	2,303	2,757
Less: Amounts Representing Interest				58	264	270
Present Value of Future Minimum Lease Payments				\$ 216	\$ 2,039	\$ 2,487

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 has 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 2002-2003. Since the costs and payment period are yet to be finalized, this commitment has not been included in the above table.

At June 30, 2002, fixed assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	Component Units	
	Governmental Activities	University of North Carolina System	Community College
Machinery and Equipment	\$ 296	\$ 5,106	\$ 2,958
Other	—	772	—
Less: Accumulated Depreciation	—	(2,171)	(286)
Total Fixed Assets	\$ 296	\$ 3,707	\$ 2,672

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2002, was as follows (dollars in thousands):

	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 3,042,570	\$ 605,000	\$ 180,245	\$ 3,467,325	\$ 205,280
Less deferred amounts:					
For issuance discounts	(3,877)	—	(796)	(3,081)	—
Add issuance premium	—	14,506	797	13,709	—
Total bonds payable	<u>3,038,693</u>	<u>619,506</u>	<u>180,246</u>	<u>3,477,953</u>	<u>205,280</u>
Notes payable	7,870	4,832	949	11,753	2,124
Capital leases payable	—	216	—	216	62
Arbitrage rebate payable	9,548	—	8,261	1,287	—
Compensated absences	214,821	165,349	170,703	209,467	18,980
Net pension obligation	4,942	19,180	20,347	3,775	—
Workers' compensation	7,068	628	551	7,145	634
Governmental activity long-term liabilities	<u>\$ 3,282,942</u>	<u>\$ 809,711</u>	<u>\$ 381,057</u>	<u>\$ 3,711,596</u>	<u>\$ 227,080</u>
	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 9,905	\$ —	\$ 100	\$ 9,805	\$ 235
Total bonds payable	9,905	—	100	9,805	235
Compensated absences	371	120	124	367	33
Business-type activity long-term liabilities	<u>\$ 10,276</u>	<u>\$ 120</u>	<u>\$ 224</u>	<u>\$ 10,172</u>	<u>\$ 268</u>

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System, N.C. Housing Finance Agency, and State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2002, was as follows (dollars in thousands):

	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
University of North Carolina System:					
Bonds payable:					
General obligation bonds	\$ 44,535	\$ 43,905	\$ 1,785	\$ 86,655	\$ 3,378
Revenue bonds	1,330,113	111,930	172,818	1,269,225	149,671
Less deferred amounts:					
For issuance discounts	(73,338)	(84)	(4,678)	(68,744)	—
On refunding	(4,119)	(3,617)	(186)	(7,550)	—
Add issuance premium	2,652	3,682	113	6,221	—
Total bonds payable	<u>1,299,843</u>	<u>155,816</u>	<u>169,852</u>	<u>1,285,807</u>	<u>153,049</u>
Notes payable	14,994	13,639	3,781	24,852	13,112
Capital leases payable	2,445	1,645	2,051	2,039	742
Arbitrage rebate payable	948	1,395	34	2,309	73
Compensated absences	129,451	129,586	117,588	141,449	8,478
Total long-term liabilities	<u>\$ 1,447,681</u>	<u>\$ 302,081</u>	<u>\$ 293,306</u>	<u>\$ 1,456,456</u>	<u>\$ 175,454</u>
	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
N. C. Housing Finance Agency:					
Bonds payable:					
Revenue bonds	\$ 1,253,567	\$ 302,787	\$ 208,282	\$ 1,348,072	\$ 21,465
Less deferred amounts:					
For issuance discounts	(21,512)	—	733	(22,245)	—
Total bonds payable	<u>1,232,055</u>	<u>302,787</u>	<u>209,015</u>	<u>1,325,827</u>	<u>21,465</u>
Arbitrage rebate payable	366	—	68	298	—
Compensated absences	255	26	—	281	30
Total long-term liabilities	<u>\$ 1,232,676</u>	<u>\$ 302,813</u>	<u>\$ 209,083</u>	<u>\$ 1,326,406</u>	<u>\$ 21,495</u>
	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	\$ 889,631	\$ 260,000	\$ 46,225	\$ 1,103,406	\$ 1,000
Total bonds payable	<u>889,631</u>	<u>260,000</u>	<u>46,225</u>	<u>1,103,406</u>	<u>1,000</u>
Arbitrage rebate payable	1,729	921	—	2,650	168
Compensated absences	115	9	9	115	8
Total long-term liabilities	<u>\$ 891,475</u>	<u>\$ 260,930</u>	<u>\$ 46,234</u>	<u>\$ 1,106,171</u>	<u>\$ 1,176</u>

NOTES TO THE FINANCIAL STATEMENTS

B. Bonds and Notes Payable

Bonds and notes payable at June 30, 2002 were (dollars in thousands):

	Interest Rates	Final Maturity	Original Issue	Total
Primary Government:				
General long-term obligations:				
Bonds payable.....	.00% - 18.00%	5/1/21	\$ 3,981,379	\$ 3,477,953
Notes payable.....	3.84% - 5.07%	9/1/08	15,123	11,753
Enterprise Funds				
Revenue bonds:				
Bonds payable.....	4.21% - 4.21%	9/1/25	9,905	9,805
Component Units:				
Bonds payable:				
University of North Carolina System.....	.80% - 9.25%	2/15/31	1,535,032	1,285,807
N.C. Housing Finance Agency.....	2.55% - 8.25%	1/1/43	2,437,646	1,325,827
State Education Assistance Authority.....	1.39% - 6.35%	7/1/31	1,118,250	1,103,406
Notes payable:				
University of North Carolina System.....	1.45% - 8.13%	5/1/22	35,301	24,852

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.

C. Bonds Authorized but Unissued

The amount of authorized but unissued bonds at June 30, 2002, totaled \$3.765 billion as follows: Higher Education \$2.55 billion; Highway Construction \$700 million; Clean Water \$380 million; and Natural Gas \$135 million.

D. 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 \$10,299,000, which represents the accreted value of these bonds. The accumulated accretion for the capital appreciation bonds is \$13,520,000 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 \$84,135,000 and \$25,275,000, respectively. These bonds are recorded in the amounts of \$38,986,615 and \$10,240,964, respectively, which is the accreted value at June 30, 2002. These bonds mature in the years from 2010 to 2021.

E. Demand Bonds

University Revenue Bonds

General Revenue Bonds, Series 2001B and 2001C – The University of North Carolina at Chapel Hill

On February 7, 2001 the University of North Carolina at Chapel Hill issued two series of variable rate demand bonds in the amount of \$54,970,000 (2001B) and \$54,970,000 (2001C)

that each have a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date which began on December 1, 2001. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Lehman Brothers Inc. (2001B) and Paine Webber Incorporated (2001C).

Under an irrevocable letter of credit issued by Toronto-Dominion Bank and Chase Manhattan Bank, the trustee is entitled to draw amounts sufficient to pay principal, and while the bonds are bearing interest at the daily or weekly rate, accrued interest on bonds delivered for purchase. The University is required to pay a quarterly commitment fee for the letters of credit of .08% per annum of the amount of bonds then currently outstanding.

Under the letter of credit agreement, the University has promised to repay loans that represent purchase drawings in equal semi-annual payments after termination of the letter of credit. Interest at the rate of prime plus 1.0% (prime plus 2.0% after 60 days) is payable quarterly and upon draw repayment. At June 30, 2002, no purchase drawings had been made under the letter of credit. The letter of credit terminates on February 6, 2003, subject to extension by the agreement of both parties.

Revenue Bonds, Series 1999A – North Carolina State University

On September 22, 1999, North Carolina State University issued tax-exempt variable rate revenue demand bonds in the amount of \$13,500,000 that have a final

NOTES TO THE FINANCIAL STATEMENTS

maturity date of December 15, 2019. The bonds are subject to mandatory sinking fund redemption that began on December 1, 2000. The proceeds of this issuance were used to (i) discharge a portion of a loan from First Union National Bank, the proceeds from which were used for the construction and equipping of a building known as the Partners II Building located on the University's Centennial Campus, (ii) paying the cost of relocating utility easements on the Centennial Campus, and (iii) paying the costs incurred in connection with the issuance of the 1999A Bonds. 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, Lehman Brothers, 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 First Union National Bank, a liquidity facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This agreement requires a commitment fee equal to 0.11% of the available commitment, payable quarterly in arrears, beginning on October 1, 1999 and on each January 1, April 1, July 1, and October 1 thereafter until the expiration date or the termination date of the agreement.

Under the agreement, any bonds purchased through the liquidity facility become liquidity provider bonds and shall, from the date of such purchase and while they are liquidity provider bonds, bear interest at the liquidity provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of liquidity provider bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered liquidity provider bonds. Payment of the interest on the liquidity provider bonds is due the first business day of each month in which liquidity provider bonds are outstanding. At June 30, 2002 there were no liquidity provider bonds held by the liquidity facility. The original liquidity facility is scheduled to expire on September 15, 2002 unless otherwise extended based on the terms of the agreement.

Effective October 1, 1999, the University entered into an interest rate swap contractual agreement with Lehman Brothers, Inc. on \$9,000,000 of these demand bonds. Under this agreement the University will pay interest at a fixed rate of 4.574%. On a monthly basis the difference between 67% of the weighted average of the weekly LIBOR (London Interbank Offered Rated) rate and the fixed rate will be calculated. If the fixed rate is greater than the LIBOR calculated rate, the University will pay the difference to Lehman Brothers, Inc. If the LIBOR rate is greater, Lehman Brothers will refund the difference to the University. During fiscal year 2001-2002, the University paid Lehman Brothers \$268,677 under this agreement.

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

In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system wide financing agreement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of \$3,645,000 with a final maturity date of October 1, 2008. These 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 N.A., 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. At June 30, 2002, there were no liquidity provider bonds held by the liquidity facility.

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, 2002 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

NOTES TO THE FINANCIAL STATEMENTS

constituent universities participating in the system wide bond issuance.

Athletic Department, Series 1996 – East Carolina University

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 of North Carolina, 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 of North Carolina, N.A. 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, 2002, 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 of North Carolina, N.A. that the letter of credit will not be extended. As of June 30, 2002, the earliest such termination date is July 31, 2003.

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

In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University of North Carolina at Asheville issued debt in the amount of \$2,580,000 with 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. The University currently pays a remarketing fee of \$198 per month determined by the outstanding principal balance.

Under a standby bond purchase agreement between the Board of Governors of the University of North Carolina and Bank of America, N.A., a liquidity facility has been established for the trustee 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. Under this agreement, the University pays an annualized fee of .2% on a monthly basis as well as an annual professional fee due following principal service in October.

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. At June 30, 2002, there were no liquidity provider bonds held by the liquidity facility.

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, 2004 and may be further extended for an additional period 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.

The debt service requirements that would result from the take out agreement, if exercised, would be approximately \$1,905,000.

The University of North Carolina Hospitals' Variable Rate Demand Pool Revenue Bonds, Series 2001A and 2001B

On January 31, 2001, the Board of Governors of the University of North Carolina issued Series 2001A and Series 2001B Revenue Bonds on behalf of the Hospitals. These tax-exempt variable rate demand bonds with an initial interest rate mode of daily were issued in the amount of \$110,000,000 and have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. The proceeds of this issuance are for certain amounts paid by the Hospitals that allowed the UNC Health Care System to acquire controlling interest in Rex Healthcare Inc. (\$75,000,000) and for the renovation of space vacated when the construction of the North Carolina Children's Hospital, North Carolina Women's Hospital, and support services is completed

NOTES TO THE FINANCIAL STATEMENTS

(\$35,000,000). While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

The bonds are subject to purchase on demand with seven days' notice and delivery to the bond tender agent, First Union National Bank. The Hospitals' remarketing agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) or Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received.

Under separate standby bond purchase agreements for the Series 2001A and Series 2001B between the Hospitals and *Landesbank Hessen-Thüringen Girozentrale*, a liquidity facility has been established for the tender agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These agreements require a facility fee equal to .22% of the available commitment, payable quarterly in arrears, beginning on April 2, 2001, and on each July, October, January and April thereafter until the expiration date or the termination date of the agreements.

Under the agreements, any bonds purchased through the liquidity facility become bank bonds and shall, from the date of such purchase and while they are bank bonds, bear

interest at the formula rate (base rate equal to the higher of the prime rate for such day or the sum of .50% plus the federal funds rate) subject to a maximum rate as permitted by law. Upon remarketing of bank bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered bank bonds. Payment of the interest on the bank bonds is due quarterly (the first business day of January, April, July and October) for each period in which bank bonds are outstanding. At June 30, 2002, there were no bank bonds held by the liquidity facility.

The Hospitals is required to redeem (purchase) the bank bonds held by the liquidity facility in equal quarterly installments on the first business day of January, April, July and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable purchase date of the bank bond and end no later than the fifth anniversary of such purchase date.

The current expiration date of the agreements is July 29, 2003. The Hospitals may request additional extensions of up to 364 days through the third anniversary date of the agreements on January 31, 2004. Extensions are at the discretion of the liquidity provider.

NOTES TO THE FINANCIAL STATEMENTS

F. 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, 2002 (dollars in thousands). Current and long-term principal requirements are disclosed for the major component unit funds.

Fiscal Year	Bonds Payable									
	Primary Government				Component Units					
	General Obligation Bonds		Town of Butner Revenue Bonds		University of North Carolina System		N.C. Housing Finance		State Education Assistance Authority	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 205,281	\$ 155,084	\$ 235	\$ 405	\$ 49,102	\$ 50,641	\$ 21,465	\$ 74,408	\$ 1,000	\$ 23,351
2004	205,180	145,653	245	395	55,440	49,023	25,255	70,766	1,000	23,298
2005	205,585	136,075	255	385	55,974	46,743	27,672	70,463	1,000	23,244
2006	205,445	126,280	270	373	57,557	44,516	29,700	69,588	1,000	23,189
2007	205,330	116,480	280	362	59,129	42,188	29,955	70,335	—	23,189
2008-2012	1,023,730	432,805	1,605	1,614	308,545	190,897	184,315	313,697	190,506	100,828
2013-2017	953,875	193,881	1,995	1,232	305,723	106,776	242,745	259,575	578,900	50,023
2018-2022	462,900	20,518	2,490	757	247,873	61,915	214,170	193,635	—	29,535
2023-2027	—	—	2,430	185	147,748	23,824	322,660	118,917	—	29,535
2028-2032	—	—	—	—	68,790	4,152	228,155	36,732	330,000	8,100
2033-2037	—	—	—	—	—	—	21,980	14,681	—	—
	<u>3,467,326</u>	<u>1,326,776</u>	<u>9,805</u>	<u>5,708</u>	<u>1,355,881</u>	<u>620,675</u>	<u>1,348,072</u>	<u>1,292,797</u>	<u>1,103,406</u>	<u>334,292</u>
Less:										
Unamortized discount	(3,081)	—	—	—	(68,744)	—	(22,245)	—	—	—
Deferred charges	—	—	—	—	(7,551)	—	—	—	—	—
Premium	13,708	—	—	—	6,221	—	—	—	—	—
Total requirements	<u>\$ 3,477,953</u>	<u>\$ 1,326,776</u>	<u>\$ 9,805</u>	<u>\$ 5,708</u>	<u>\$ 1,285,807</u>	<u>\$ 620,675</u>	<u>\$ 1,325,827</u>	<u>\$ 1,292,797</u>	<u>\$ 1,103,406</u>	<u>\$ 334,292</u>

At year end, the outstanding \$355 million of Public Improvement Bonds, Series 2002D, E, F, and G bore interest at a rate determined weekly by the remarketing agent to be the minimum interest rate at which the bonds could be sold at par. The State may elect at any time to change the method of determining the interest rate. The interest rate may be changed to a daily interest rate, bond interest term rates or a long-term interest rate, as applicable, and no bond (other than escrow bonds) shall bear interest at a rate in excess of twelve percent (12%) per annum. In the case of bonds that are escrow bonds the interest rate per annum is determined pursuant to the liquidity facility, initially the bank bond interest rate, and shall not exceed eighteen percent (18%) per annum.

Fiscal Year	Notes Payable			
	Primary Government		Component Unit	
	General Obligation Bonds		University of North Carolina System	
	Principal	Interest	Principal	Interest
2003	\$ 2,124	\$ 493	\$ 13,112	\$ 870
2004	2,218	399	2,413	578
2005	2,319	298	2,182	444
2006	2,423	194	1,225	355
2007	1,204	107	1,005	296
2008-2012	1,465	47	4,111	578
2013-2017	—	—	348	180
2018-2022	—	—	456	72
Total requirements	<u>\$ 11,753</u>	<u>\$ 1,538</u>	<u>\$ 24,852</u>	<u>\$ 3,373</u>

NOTES TO THE FINANCIAL STATEMENTS
G. Bond Defeasances
University of North Carolina at Chapel Hill

On May 7, 2002, the University issued \$66,555,000 in the University of North Carolina at Chapel Hill *General Revenue Refunding Bonds, Series 2002B*, with an average interest rate of 3.50%. The refunding was used to advance refund (defease) \$69,895,000 of outstanding University of North Carolina at Chapel Hill *Utility System Revenue Bonds, Series 1993*, with a combined average interest rate of 5.34%. The net proceeds amount 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's debt service requirements to early redemption of the 1993 Bonds were reduced by \$3,340,000 over the next 10 years and obtained an economic gain of \$1,700,902. At June 30, 2002, the outstanding balance was \$69,895,000 for the defeased outstanding *Utility System Revenue Bonds, Series 1993*.

North Carolina State University

On April 16, 2002, the University issued \$8,800,000 in the North Carolina State University *General Refunding Revenue Bonds, Series 2002B* and \$7,160,000 in the North Carolina State University *General Refunding Revenue Bonds, Series 2002C*, with an average interest rate of 4.412% and 6.115% respectively. The refunding component of this bond issue was used to defease \$1,125,000 of outstanding North Carolina State University at Raleigh *Housing System Revenue Refunding Bonds of 1991, Series L*; \$7,520,000 of outstanding North Carolina State University at Raleigh *Housing System Revenue Bonds of 1994, Series M*; and \$7,290,000 of outstanding North Carolina State University at Raleigh *Taxable Revenue Bonds Centennial Campus Projects, Series 1993*, with a combined average interest rate of 6.89%. Net proceeds of \$17,339,237 resulted from the bond sale. Of the net proceeds amount, \$17,103,017 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 \$3,702,000 over the next twelve years and obtained an economic gain of \$534,000. At June 30, 2002, the outstanding balance was \$14,810,000 for the defeased Bond Issues.

East Carolina University

On December 6, 2001, the University issued \$14,555,000 in *Student Fee Revenue Refunding Bonds (Student Recreation Center), Series 2001C*, with an average interest rate of 4.2315%. The refunding component of this bond issue was used to advance refund (defease) \$14,765,000 of outstanding *Student Services System Revenue Bonds, Series 1993* with a combined average interest rate of 5.4348%. Net proceeds of \$14,496,319 resulted from the bond sale. The university provided other sources of funds totaling \$1,360,771. Of the net

proceeds amount, \$14,496,319 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 \$2,399,782 over the next 18 years and obtained an economic gain of \$339,691. At June 30, 2002, the outstanding balance was \$14,230,000 for the defeased *Student Services System Revenue Bonds, Series 1993*.

University of North Carolina at Greensboro

On January 4, 2002, the University issued \$16,445,000 in *General Revenue Bonds, Series 2001B* with an average interest rate of 4.87%. The refunding component of this bond issue was used to advance refund (defease) \$8,085,000 of outstanding *Student Facilities Revenue Bonds, Series 1992A*, with a combined average interest rate of 5.7%. Net proceeds of \$8,555,463 resulted from the bond sale. Of the net proceeds amount, \$8,435,838 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 \$420,184 over the next 15 years and obtained an economic gain of \$298,691. At June 30, 2002 there were no outstanding bonds for the defeased *Student Facilities Revenue Bonds Series 1992A*.

Appalachian State University

On March 28, 2002, the University issued \$13,240,000 in Appalachian State University *Housing and Student Center System Revenue Refunding Bonds, Series 2002* with an average interest rate of 4.361%. The refunding component of this bond issue was used to advance refund (defease) \$12,365,000 of outstanding Appalachian State University *Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993*, with a combined average interest rate of 5.479%. Net proceeds of \$13,203,471 resulted from the bond sale. Of the net proceeds amount, \$13,198,827 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 \$318,249 over the next 14 years and obtained an economic gain of \$232,892. At June 30, 2002, the outstanding balance was \$12,365,000 for the defeased Appalachian State University *Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993*.

University of North Carolina at Charlotte

On January 9, 2002, the University issued \$10,900,000 in *Parking System Revenue Bonds, Series 2002* with an average interest rate of 4.75%. The refunding component of this bond

NOTES TO THE FINANCIAL STATEMENTS

issue was used to advance refund (defease) \$5,010,000 of outstanding *Parking System Revenue Bonds, Series 1992*, with a combined average interest rate of 6.4%. Net proceeds of \$5,582,570 resulted from the bond sale. The University reduced its debt service requirements by \$8,008,600 over the next 15 years and obtained an economic gain of \$421,950.

North Carolina Housing Finance Agency

On September 27, 2001, the Agency issued \$20,000,000 in *Home Ownership Bonds (1998 Resolution), Series 12* with an average interest rate of 1.69%. On December 20, 2001, these bond proceeds were used to optionally refund at 100% the *Single Family Revenue Bonds (1976 Resolution) Series A*, *Single Family Revenue Bonds (1976 Resolution) Series B*, and at 102% the *Single Family Revenue Bonds (1985 Resolution) RST*. The *Home Ownership Revenue Bonds (1998 Resolution)* on December 20, 2001, purchased 342 loans with a principal balance of \$7,446,181 from *Single Family Revenue Bonds (1976 Resolution) Series A*, 369 loans with a principal balance of \$8,840,783 from *Series B*, and 373 loans from *1985 Resolution Series RST* with a principal balance of \$10,949,932. At June 30, 2002 there were no outstanding bonds for the defeased *1976 Resolution Series A and B and the 1985 Resolution Series RST*. The Agency reduced its debt service requirements by \$12,900,000 over the next 21 years and obtained an economic gain of \$3,000,000.

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, 2002, the outstanding balance of current and prior year defeased bonds was \$24 million for the primary government and \$206.5 million for the component units.

H. 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% for up to 10 years after the date of issuance.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables as of June 30, 2002 are as follows (dollars in thousands):

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Primary Government		
Governmental Funds		
General Fund.....	\$ 36,465	\$ 33,257
Highway Fund.....	78,227	11,001
Highway Trust Fund.....	2,661	76,944
Other nonmajor funds.....	53,914	165,229
Total governmental funds.....	<u>171,267</u>	<u>286,431</u>
Proprietary Funds		
Unemployment Compensation Funds.....	9	393
Other nonmajor funds.....	—	6
Internal Service Funds.....	18,667	5,310
Total proprietary funds.....	<u>18,676</u>	<u>5,709</u>
Fiduciary Funds		
Pension and Other Employee Benefit		
Trust Funds.....	—	9
Agency Funds.....	8,673	5,672
Total fiduciary funds.....	<u>8,673</u>	<u>5,681</u>
Component Units		
University of North Carolina System.....	107,459	1,580
Community Colleges.....	23,009	46
NC Housing Finance Agency.....	—	6
State Education Assistance Authority.....	25,296	—
Other component units.....	497	73,078
Total component units.....	<u>156,261</u>	<u>74,710</u>
Timing difference-		
Other component units - North Carolina		
Railroad Company.....	17,654	—
Total.....	<u>\$ 372,531</u>	<u>\$ 372,531</u>

Included in the category of interfund receivables are "Due from fiduciary funds," "Due from other funds," "Due from component units," "Due from primary government," "Advances to other funds," and "Advances to component units." Included in the category of interfund payables are "Due to fiduciary funds," "Due to other funds," "Due to component units," "Due to primary government," "Advances from other funds," and "Advances from primary government." Interfund payables exceeded interfund receivables in the amount of \$17.654 million due to timing differences in the recognition of a loan repayment and dividend earnings related to the North Carolina Railroad Company.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved Fund Balance. The State's reserved fund balances represent those portions of the fund balances that are either (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource for current appropriation or expenditure, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. There are no reserved fund balances in the Highway Trust Fund. The reserved fund balances at June 30, 2002, are (dollars in thousands):

	Governmental Funds			
	<i>General</i>	<i>Highway Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
Specific encumbrances.....	\$ 27,673	\$ 4,847	\$ —	\$ 32,520
Inventories.....	43,772	3,547	27,333	74,652
Investments.....	148	—	—	148
Wildlife endowment.....	—	—	49,306	49,306
Notes Receivable.....	2,952	—	519,732	522,684
Vacation, sick leave.....	—	41,757	—	41,757
Retirees' health premiums.....	70,797	—	—	70,797
Prepaid items.....	—	—	57	57
Continuing programs.....	54,360	—	—	54,360
Capital projects.....	—	—	50,115	50,115
Advance to component unit.....	22,081	—	—	22,081
Loan and grant commitments.....	—	1,900	339,298	341,198
Other purposes.....	5,984	1,509	59,638	67,131
Total reserved fund balance...	<u>\$ 227,767</u>	<u>\$ 53,560</u>	<u>\$ 1,045,479</u>	<u>\$ 1,326,806</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 \$546.283 million at June 30, 2002. As shown in the table below, the fund balance available to be designated was a negative \$576.318 million on a modified accrual basis at June 30, 2002 (dollars in thousands):

Unreserved Designated Fund Balance	General Fund
Higher education.....	\$ 55,059
Agriculture.....	371
Disaster relief.....	317,235
Primary and secondary education.....	37,553
Economic development programs.....	4,607
General government programs.....	28,018
Health and human services programs.....	79,743
Public safety, corrections, and regulation programs.....	23,201
Environment and natural resources.....	496
Total designations.....	<u>\$ 546,283</u>
Unreserved fund balance.....	<u>\$ (576,318)</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: RETIREMENT PLANS

The State reports ten retirement plans as pension trust funds. This note describes the six defined benefit public employee retirement plans administered and contributed to by the State. The remaining plans, described in Note 10, are defined contribution plans administered by the State or a third party. The State may or may not make supplementary contributions to these plans. 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. The financial statements for these plans are presented in Note 13 of this *CAFR*. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

A. Plan Descriptions and Contribution Information
1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, 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, 2002, 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, investment income, and by a required employer contribution established by legislation. For the period July 1, 2001 through June 30, 2002, the actuarially based contribution of 1.97% of covered payroll was made to the plan. Benefit and contribution provisions are established by G.S. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

During the 2001 fiscal year, the Governor, by executive order, reduced the required employer contributions to the plan by \$127 million for the purpose of balancing the state budget. Although no formal commitment has been made, legislative activity in the interim indicated these contributions will be made in the future if funding is available. The percentage of actual contributions made in relation to the required contributions for the State and its component units is shown in *Section D* of this note. All contributions, in relation to the plan

itself, are shown in the *Required Supplementary Information* section of this report.

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

2. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the period July 1, 2001 through June 30, 2002, the actuarially based required contribution of 14.05% of covered payroll was made to the plan. Benefit and 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. Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by employer contributions. For the period July 1, 2001 through June 30, 2002, the actuarially based required contribution was 23.94% of covered payroll. Legislation, however, established the contribution rate actually made of 23.20% of covered payroll. 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, 2002, there were 1,488 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.

For this fiscal year, the State did not make the full actuarially required contribution. Actual contributions made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

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, 2002, the number of participating local governments was 885, as shown below:

Cities	407
Counties	100
Special districts	378

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.

NOTES TO THE FINANCIAL STATEMENTS

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 Govern- mental</u>
Employee Groups						
Retirees and beneficiaries currently receiving benefits	112,490	382	204	8,093	2,055	31,352
Terminated employees entitled to benefits but not yet receiving them	52,088	50	88	157	6,122	16,099
Active plan members	<u>297,252</u>	<u>487</u>	<u>169</u>	<u>30,514</u>	<u>7,460</u>	<u>118,580</u>
Total	<u>461,830</u>	<u>919</u>	<u>461</u>	<u>38,764</u>	<u>15,637</u>	<u>166,031</u>
Date of Valuation	12-31-01	12-31-01	12-31-01	6-30-01	12-31-01	12-31-01

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

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

INVESTMENTS /SECURITIES LENDING

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The investment balance of each system represents its share of the fair value of the net assets of the 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.

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, 2001 (June 30, 2001, 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 Information*. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

<u>Retirement System</u>	<u>Valuation Date</u>	<u>Actuarial Cost Method</u>	<u>Amortization Method</u>	<u>Remaining Amortization Period</u>	<u>Period Open/Closed</u>	<u>Asset Valuation Method</u>	<u>Actuarial Assumptions</u>	
							<u>Investment Rate of Return</u>	<u>Projected Salary Increase</u>
Teachers' and State Employees'	12/31/01	Entry age	Level dollar	10 years	Open	5 year smoothed	7.25%	5.45-12.08%
Consolidated Judicial	12/31/01	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.63-12.58%
Legislative	12/31/01	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's, Rescue Squad Workers'	6/30/01	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
National Guard	12/31/01	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
Local Governmental Employees'	12/31/01	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

The valuations for the Teachers' and State Employees' system, Local Governmental Employees' system, Legislative system, and Consolidated Judicial system reflect a 1.4% cost of living increase for retirees in these systems. In addition, the valuations for the Teachers' and State Employees' system and the Local Governmental Employees' system increased the benefit accrual rate from 1.81% to 1.82%. All of the benefit enhancements listed in this paragraph reflect legislation enacted by the North Carolina General Assembly and are effective July 1, 2002.

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, 2002, 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, 1999, the Legislative system was valued at December 31, 2000, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2000. These valuations used amortization periods of 9 years for Consolidated Judicial, 5 years for National Guard and 9 years

for the Firemen's and Rescue Squad Worker's Fund. The Teachers' and State Employees' system used the level percentage amortization method that produced a remaining amortization period of 23 years. The Local Governmental Employees' system is an aggregate of numerous employers, and consequently, has various amortization periods. The rate of investment return and projected salary increases used in these valuations assumed essentially the same increases as in the most current valuations reported on the prior page.

As a result of interim legislation, the December 31, 1999, actuarial value of assets for the Teachers' and State Employees' system was restated by the actuary from his original valuation. The system's actuarially required contributions for the fiscal year ended June 30, 2002, and its actuarial funding parameters were affected by these changes. The *Schedule of Funding Progress* presented in the *Required Supplementary Information* section of this report reflects adjustments for the impact of these changes on that valuation.

For the fiscal year ended June 30, 2002, the Local Governmental Employees' system provided a 3.7% cost of living increase for retirees and an increase in the benefit accrual rate from 1.78% to 1.81%. The Teachers' and State Employees' system, Legislative Retirement system and the Consolidated Judicial system provided a 2.0% cost of living increase for retirees in these systems. All of these benefit enhancements reflect legislation enacted by the North Carolina General Assembly and were effective July 1, 2001. These enhancements were either reflected as liabilities in the December 31, 2000 valuations or the systems will pay for them through actuarial gains.

D. Annual Pension Cost and Net Pension Obligation

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

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 7,003,000	\$ 858,357	\$ 10,026,897	\$ 1,542,443
Interest on net pension obligation.....	278,000	6,099	74,369	—
Adjustment to annual required contribution.....	(429,000)	(20,670)	(159,122)	—
Annual pension cost.....	<u>6,852,000</u>	<u>843,786</u>	<u>9,942,144</u>	<u>1,542,443</u>
Contributions made.....	<u>8,493,000</u>	<u>964,825</u>	<u>10,026,897</u>	<u>899,758</u>
Increase (decrease) in net pension obligation.....	(1,641,000)	(121,039)	(84,753)	642,685
Net pension (asset) obligation beginning of year....	<u>3,832,000</u>	<u>84,128</u>	<u>1,025,780</u>	<u>—</u>
Net pension (asset) obligation end of year.....	<u>\$ 2,191,000</u>	<u>\$ (36,911)</u>	<u>\$ 941,027</u>	<u>\$ 642,685</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, 2000 through June 30, 2002 (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:					
2002	\$ 50,835	\$ 6,852	\$ 844	\$ 9,942	\$ 1,542
2001	103,530 **	9,071	925	12,105	2,075
2000	197,480	8,435	889	12,105	2,545
Component units:					
Universities:					
2002	\$ 24,829				
2001	48,151 **				
2000	91,805				
Community Colleges:					
2002	\$ 9,676				
2001	19,489 **				
2000	35,746				
Proprietary Funds:					
2002	\$ 333				
2001	704 **				
2000	1,250				
Total Primary Government and Component Units:					
2002	\$ 85,673	\$ 6,852	\$ 844	\$ 9,942	\$ 1,542
2001	171,874 **	9,071	925	12,105	2,075
2000	326,281	8,435	889	12,105	2,545
Percentage of APC Contributed:					
2002		124%	114%	101%	58%
2001		58%	51%	92%	100%
2000		100%	91%	100%	100%
Percentage of ARC Contributed:					
2002	100%				
2001	100%				
2000	100%				
Net Pension (Asset) Obligation:					
2002		\$ 2,191	\$ (37)	\$ 941	\$ 643
2001		3,832	84	1,026	—
2000		—	(369)	—	—

** The State's contributions/pension costs for 2001, as reported in the 2001 CAFR, are restated here to reflect contributions/pension cost adjustments.

Yearly pension liabilities for the systems are shown in the *Required Supplementary* section of this report. Beginning with the accounting transition year of 1997, liabilities were determined in accordance with Governmental Accounting Standards Board Statement No. 27 (GASB 27). As presented here, each system's yearly APC and net pension (asset) obligation were computed 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 that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in universities of the UNC System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2002, the Plan had 8,822 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), Valid, 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 \$49,747,040 for the 2001-02 fiscal year. Annual covered payroll was \$727,295,903 and employer contributions expressed as a percentage of annual covered payroll were 6.84% for the fiscal year ended June 30, 2002. Employee contributions expressed as a percentage of annual covered payroll were 6%, with an actual employee contribution of \$43,637,754 for the 2001-02 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, 2002, the State and its component units paid \$ 9,437,531 for 722 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.

NOTES TO THE FINANCIAL STATEMENTS

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 a pension 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 \$11,000 in 2001) of their compensation during the plan fiscal year. Members of the Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the Plan are the responsibility of the participants.

The Plan is a defined contribution pension plan 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, 2001, 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 represent loans to participants and are reported at outstanding principal balances. The Branch Banking and Trust Company (BB&T) administers the Plan, 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, 2001, 52 state agencies and component units along with 551 local governmental units outside our reporting entity contributed the required 5%. In addition, 352 local government employers contributed to the Plan on a voluntary basis.

At December 31, 2001, the Plan disclosed the following investments (at fair value) exceeding five percent of the Plan’s net assets:

Fidelity Magellan Fund	\$ 857,561,000
BB&T Bank Investment Contracts	358,953,000
Fidelity Equity-Income Fund.....	313,554,000
Money Market Fund	241,139,000
Fidelity Spartan U.S. Equity	185,928,000

The Plan also reported total member contributions of \$172,813,000. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2001, amounted to \$133,794,953 for the State, \$14,445,268 for universities, and \$869,066 for the other miscellaneous component units. The required 5% employer’s contribution was made by the State for \$6,689,748, by universities for \$722,263, and by the remaining component units for \$43,453. In addition, the State contributed \$518,716 for the required court cost assessments.

Register of Deeds’ Supplemental Pension Fund – This plan is a defined contribution plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is composed of registers who are retired from the Local Governmental Employee’s Retirement System or an equivalent local plan and have met the statutory eligibility requirements. At June 30, 2002, there were 100 registers enrolled in the plan with all 100 counties participating. An individual’s benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual’s eligibility is based on minimum years of

NOTES TO THE FINANCIAL STATEMENTS

service as a register with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The State Treasurer administers the plan and Note 9B describes the accounting and investing for the plan.

Benefits and administrative expenses are funded by 4.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the General Statutes and investment income. For the year ended June 30, 2002, the County Commissions contributed \$ 2,219,299. All benefit and contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The plan is reported in the CAFR as a pension trust fund.

Sheriffs' Supplemental Pension Fund – This plan is a defined contribution plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is composed of sheriffs who are retired from the Local Governmental Employee's Retirement System and have met the statutory eligibility requirements. At June 30, 2002, there were 72 sheriffs enrolled in the plan with all 100 of the State's counties eligible to participate.

An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a sheriff with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The North Carolina Department of Justice administers the plan with its investments held as part of the State Treasurer's Investment Pool. Note 9B describes the accounting and investing for the plan.

Receipts collected by each county's Clerk of Superior Court under General Statute 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. For the year ended June 30, 2002, the Clerks remitted \$ 771,521. All benefit and contribution provisions are established by General Statute 143-166 and may be amended only by the North Carolina General Assembly. The plan is reported in the CAFR as a pension trust fund.

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, 2002, the number of participants currently eligible to receive health care as an other postemployment benefit are 45,920 TSERS and DIPNC members (excluding LEA members), 267 CJRS members, 125 LRS members, and 843 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 the self-funded Comprehensive Major Medical Plan (Plan).

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. The State, participating component units and LEAs contributed a monthly amount equal to 2.35% of active employees' salaries to the General Fund's Reserve for Retirees' Health Premium Account (Reserve). The Reserve pays the full cost of coverage for long-term disability beneficiaries and retirees enrolled in the Plan. For the fiscal year ended June 30, 2002, the Reserve paid \$2,103.66 for each Medicare-eligible long-term disability beneficiary and retiree and \$2,763.36 for each non-Medicare-eligible long-term disability beneficiary and retiree. At June 30, 2002, the Reserve had net assets at fair value of \$70,796,973. The net assets are available for future benefit payments.

From July to September 2001, long-term disability beneficiaries and retirees had the option of health care made available through contractual agreements with three health maintenance organizations (HMO). The Reserve made contributions similar to the amounts contributed for those participating in the self-funded Plan. The former employees paid 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. As of October 1, 2001, no HMO coverage was available.

For the fiscal year ended June 30, 2002, contributions on behalf of former employees of the reporting entity were made to the Reserve as follows:

Primary government	\$ 61,896,150
University of North Carolina System ...	46,491,717
Community Colleges	11,542,821
Certain participating proprietary component units	<u>397,682</u>
Total contributions	<u>\$ 120,328,370</u>

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). It is reported in this CAFR as a pension and other employee benefit trust fund. 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

NOTES TO THE FINANCIAL STATEMENTS

service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the 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. Although the DIPNIC operates on a calendar year disability income benefits are funded by employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the DIPNIC's plan year, (the calendar year ended December 31, 2001), 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, 2001 (the most recent actuarial valuation date), DIPNC had 2,592 members, excluding LEA members, who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 306,731 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 actuarial liabilities for unpaid claims is discussed in Note 12. The market related actuarial value of the assets of DIPNC at December 31, 2001, was \$246,212,876 creating an actuarial deficit of \$24,554,664. The actual fair value of the assets for DIPNC at December 31, 2001 was \$255,077,650. The assets are available for future other postemployment benefits and benefits for eligible active employees.

Actuarial Assumptions for the calendar year ended

December 31, 2001:

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	\$ 26,034,355
Actual contribution made by:	
Primary Government	\$13,382,386
University of North Carolina system	9,976,958
Community Colleges	\$2,582,273
Certain participating proprietary component units	\$92,738
Total actual contribution made	<u>\$26,034,355</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

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 105 out of 117 LEAs and 25 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 no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period. The Fund does consider investment income in determining if a premium deficiency exists.

The only acquisition costs are related to proposal costs and inspection costs for 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	
	2002	2001
Unpaid claims at beginning of year	\$ 5,675	\$ 5,778
Incurred claims:		
Provision for insured events		
of the current year	775	1,589
Increases (decreases) in provision		
for insured events of prior years	(983)	1,606
Total incurred claims	(208)	3,195
Payments:		
Claims attributable to insured		
events of the current year	786	426
Claims attributable to insured		
events of the prior years	3,489	2,872
Total payments	4,275	3,298
Total unpaid claims at end		
of the year	\$ 1,192	\$ 5,675

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 maximum per insured location) are covered by reinsurance policies. Aggregate payments by the Fund over \$20 million a year (March 20, 2001 - March 20, 2002) are recoverable by reinsurance. Maximum recoverable from one catastrophic event is \$1 billion per occurrence. Annual aggregate limits of \$400 million apply separately with respect to flood and earthquake. Coverage applies to "all risk", excluding boiler and machinery. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently, there are no claims from the reinsurers.

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 benefits for employees and retirees of the State and its participating component units, as well as certain of their dependents on a fully contributory basis. 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 pension and other employee benefit trust fund. 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

NOTES TO THE FINANCIAL STATEMENTS

benefit. The Plan has contracted with third parties to process claims. From July through September 2001, health care was also made available through agreements with three health maintenance organizations (HMO). The Plan does not assume risk for HMO contracts. As of October, 2001, no HMO coverage was available.

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 \$5 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>
2000-01	\$ 133,167	\$ 1,127,394	\$ 1,069,234	\$ 191,327
2001-02	191,327	1,152,116	1,181,943	161,500

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina system, community colleges, and certain participating proprietary component units 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.

For the period January 1, 2001 to June 30, 2001, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina system, community colleges, and certain participating component units and LEAs contributed 0% of active employees' salaries to fund the Death Benefit Plan for the period January 1, 2001 to June 30, 2001. Effective July 1, 2001 funding for the Death Benefit Plan was .16%.

These benefits are established by Chapter 135, Section 5(1), 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>
2000-01	\$ 1,538	\$ 23,879	\$ 23,847	\$ 1,570
2001-02	1,570	25,387	25,380	1,577

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating 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 (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>
2000-01	\$ 218,527	\$ 98,860	\$ 46,320	\$ 271,067
2001-02	271,067	44,422	44,722	270,767

NOTES TO THE FINANCIAL STATEMENTS

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 \$500,000 of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$500,000. The liability limits for losses incurring in-state are \$500,000 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 losses up to \$2.5 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. However, some agencies have chosen a higher deductible for a reduction in premium.

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, in excess of \$50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach \$5 million in any one annual period, the Fund's deductible for the remainder of the annual period is \$100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Claims of \$10,000 or higher are paid when the Council of State approves the request for payment. Claims less than \$10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of

State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Claims payable at June 30, 2002 are disclosed on the balance sheet as a combination of claims and benefits payable of \$232 thousand, due to other funds of \$266 thousand, and due to component units of \$601 thousand. The liability for the fiscal year ended June 30, 2001 was restated from what was disclosed in the 2001 CAFR. 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>
2000-01	\$ 1,224	\$ 5,972	\$ 6,521	\$ 675
2001-02	675	1,032	608	1,099

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 \$500,000 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 \$3.5 million per occurrence and to \$12 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 \$29,598,435 and \$26,957,828 are the present values of the aggregate actuarially determined claims liabilities of \$29,965,805 and \$27,676,450, discounted at 6%, at June 30, 2001 and 2002, 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. The Trust Fund's liability for the fiscal year ended June 30, 2001 was restated from what was disclosed in the 2001 CAFR. 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>
2000-01	\$ 30,886	\$ 7,512	\$ 8,800	\$ 29,598
2001-02	29,598	9,037	11,677	26,958

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 \$500,000 statutory limit payable for any one claim under the State Tort Claims Act. The first \$150,000 of an award against a state agency is the responsibility of the state agency's general fund budget code or up to \$500,000 if a non-general fund budget code. For general fund budget codes, any award greater than \$150,000 but less than \$500,000 is funded

NOTES TO THE FINANCIAL STATEMENTS

by proportionate shares of estimated lapse salaries from all agencies general fund budget codes. Since State agencies and component units are responsible for funding any tort claims of \$500,000 or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

4. Employee Dishonesty and Computer Fraud

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State and its component units with a limit of \$5 million per occurrence, subject to a \$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. A third-party administrator handles workers' compensation claims except for the Department of Transportation. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. The third party administrator receives a per case administration fee and draws down State funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

Each state agency and participating component unit is 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, 2002, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	\$ 49,675
University of North Carolina System	4,248
All other component units	<u>23</u>
Total	<u>\$ 53,946</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, 2002 was \$976,500. As of June 30, 2002, the Fund consisted of 1,229 eligible units representing approximately 40,066 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, 2002, 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 2001-2002. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 2002, there are claims recoverable from reinsurers in the amount of \$542,000.

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>
2000-01	\$ 7,641	\$ 3,691	\$ 2,514	\$ 8,818
2001-02	8,818	3,166	3,184	8,800

7. Health Insurance Program for Children

The Health Insurance Program for Children (the Program) is an insurance enterprise reported within the general fund. The Program was created by Chapter 108A, Article 2, Part 8, of the General Statutes to provide comprehensive health insurance coverage to uninsured low-income children who are residents of this State. 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, 2002, \$32,987,142 was appropriated from the General Fund to the North Carolina Department of Health and Human Services (DHHS) to be used for the Program.

The Program is administered by DHHS. Eligible children may be enrolled by the Division of Social Services based on the availability of funds. The 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. The program had an average enrollment of 71,000 children insured during the year.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and

unreported). The following schedule shows the changes in the claims liability for the Program's past two years of operation (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>
2000-01	\$ 15,977	\$ 91,799	\$ 95,581	\$ 12,195
2001-02	12,195	97,497	94,734	14,958

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NOTES TO THE FINANCIAL STATEMENTS

**NOTE 13: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE
BENEFIT TRUST FUNDS**

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2002 are presented below (dollars in thousands).

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2002

(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
ASSETS							
Cash and cash equivalents.....	\$ 36,230	\$ 837	\$ 244	\$ 709	\$ 160	\$ 14,486	\$ 246,991
Investments:							
Annuity contracts.....	—	—	—	—	—	—	—
Bank investment contracts.....	—	—	—	—	—	—	358,953
Mutual funds.....	—	—	—	—	—	—	1,595,737
State Treasurer investment pool.....	41,704,080	314,735	25,120	242,145	44,999	10,969,621	—
Securities lending collateral.....	7,403,474	57,334	4,942	44,952	8,529	2,035,832	—
Receivables:							
Accounts receivable.....	802	—	—	—	—	526	128
Interest receivable.....	587	6	1	7	1	157	2,488
Contributions receivable.....	61,135	843	93	—	—	33,695	6,800
Notes receivable.....	—	—	—	—	—	—	109,466
Capital assets, net.....	—	—	—	—	—	—	—
Total Assets.....	<u>49,206,308</u>	<u>373,755</u>	<u>30,400</u>	<u>287,813</u>	<u>53,689</u>	<u>13,054,317</u>	<u>2,320,563</u>
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	—	—	—	—	—	—	3,818
Benefits payable.....	11,156	—	—	—	1	199	—
Medical claims payable.....	—	—	—	—	—	—	—
Obligations under securities lending.....	7,403,474	57,334	4,942	44,952	8,529	2,035,832	—
Due to other funds.....	—	—	—	1	—	—	—
Deferred revenue.....	—	—	—	—	—	—	—
Accrued vacation leave.....	—	—	—	—	—	—	—
Total Liabilities.....	<u>7,414,630</u>	<u>57,334</u>	<u>4,942</u>	<u>44,953</u>	<u>8,530</u>	<u>2,036,031</u>	<u>3,818</u>
Net Assets:							
Held in trust for:							
Employees' pension and other benefits.....	41,791,678	316,421	25,458	242,860	45,159	11,018,286	2,316,745
Total Net Assets.....	<u>\$ 41,791,678</u>	<u>\$ 316,421</u>	<u>\$ 25,458</u>	<u>\$ 242,860</u>	<u>\$ 45,159</u>	<u>\$ 11,018,286</u>	<u>\$ 2,316,745</u>

A schedule of funding progress for each defined benefit plan is presented on page 130.

NOTES TO THE FINANCIAL STATEMENTS

Deferred Compensation	Death Benefit Plan of N.C.	State Health Plan	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	Totals
\$ 773	\$ 3,620	\$ 91,598	\$ 5,036	\$ 1,266	\$ 310	\$ 402,260
252,831	—	—	—	—	—	252,831
—	—	—	—	—	—	358,953
323,405	—	—	—	—	—	1,919,142
—	212,349	—	257,128	—	14,133	53,784,310
—	82,913	85,818	101,222	1,037	5,683	9,831,736
210	46	1,091	2,800	—	—	5,603
—	14	528	28	5	1	3,823
1,438	1,519	—	4,399	—	173	110,095
—	—	—	—	—	—	109,466
—	—	3	—	—	—	3
<u>578,657</u>	<u>300,461</u>	<u>179,038</u>	<u>370,613</u>	<u>2,308</u>	<u>20,300</u>	<u>66,778,222</u>
66	139	19,772	—	—	—	23,795
—	1,577	—	270,767	—	—	283,700
—	—	161,500	—	—	—	161,500
—	82,913	85,818	101,222	1,037	5,683	9,831,736
—	—	8	—	—	—	9
—	—	11,327	—	—	—	11,327
—	—	20	—	—	—	20
<u>66</u>	<u>84,629</u>	<u>278,445</u>	<u>371,989</u>	<u>1,037</u>	<u>5,683</u>	<u>10,312,087</u>
578,591	215,832	(99,407)	(1,376)	1,271	14,617	56,466,135
<u>\$ 578,591</u>	<u>\$ 215,832</u>	<u>\$ (99,407)</u>	<u>\$ (1,376)</u>	<u>\$ 1,271</u>	<u>\$ 14,617</u>	<u>\$56,466,135</u>

NOTES TO THE FINANCIAL STATEMENTS**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**

For the Fiscal Year Ended June 30, 2002

(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
Additions:							
Contributions:							
Employer.....	\$ 198,462	\$ 7,080	\$ 837	\$ —	\$ —	\$ 193,505	\$ 101,399
Members.....	637,338	3,324	279	4,197	—	233,372	172,813
Other contributions.....	—	—	—	10,027	900	—	—
Total contributions.....	<u>835,800</u>	<u>10,404</u>	<u>1,116</u>	<u>14,224</u>	<u>900</u>	<u>426,877</u>	<u>274,212</u>
Investment Income:							
Investment earnings (loss).....	(1,697,180)	(12,160)	(827)	(5,899)	(1,504)	(400,994)	(174,116)
Less investment expenses.....	(192,161)	(1,468)	(122)	(4,195)	(219)	(51,143)	—
Net investment income (loss).....	<u>(1,889,341)</u>	<u>(13,628)</u>	<u>(949)</u>	<u>(10,094)</u>	<u>(1,723)</u>	<u>(452,137)</u>	<u>(174,116)</u>
Other additions:							
Fees, licenses and fines.....	—	—	—	—	—	4,630	1,852
Interest earnings on loans.....	—	—	—	—	—	—	8,913
Miscellaneous.....	1,342	—	—	—	—	15	—
Total other additions.....	<u>1,342</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,645</u>	<u>10,765</u>
Total additions.....	<u>(1,052,199)</u>	<u>(3,224)</u>	<u>167</u>	<u>4,130</u>	<u>(823)</u>	<u>(20,615)</u>	<u>110,861</u>
Deductions:							
Claims and benefits.....	1,821,710	16,550	1,172	15,386	2,001	398,272	103,702
Refund of contributions.....	71,704	117	13	571	—	47,588	—
Administrative expenses.....	7,540	15	7	608	30	2,734	5,420
Other deductions.....	—	—	—	—	—	—	—
Total deductions.....	<u>1,900,954</u>	<u>16,682</u>	<u>1,192</u>	<u>16,565</u>	<u>2,031</u>	<u>448,594</u>	<u>109,122</u>
Change in net assets.....	<u>(2,953,153)</u>	<u>(19,906)</u>	<u>(1,025)</u>	<u>(12,435)</u>	<u>(2,854)</u>	<u>(469,209)</u>	<u>1,739</u>
Net assets — July 1, as restated.....	44,744,831	336,327	26,483	255,295	48,013	11,487,495	2,315,006
Net assets — June 30.....	<u>\$ 41,791,678</u>	<u>\$ 316,421</u>	<u>\$ 25,458</u>	<u>\$ 242,860</u>	<u>\$ 45,159</u>	<u>\$ 11,018,286</u>	<u>\$ 2,316,745</u>

NOTES TO THE FINANCIAL STATEMENTS

Deferred Compensation	Death Benefit Plan of N.C.	State Health Plan	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	Totals
\$ —	\$ 19,964	\$ 1,018,279	\$ 56,592	\$ —	\$ 2,207	\$ 1,598,325
24,572	—	250,842	—	—	—	1,326,737
—	7,927	—	—	—	—	18,854
<u>24,572</u>	<u>27,891</u>	<u>1,269,121</u>	<u>56,592</u>	<u>—</u>	<u>2,207</u>	<u>2,943,916</u>
(37,636)	20,867	5,870	24,787	89	1,317	(2,277,386)
—	(1,742)	(1,433)	(2,113)	(22)	(110)	(254,728)
<u>(37,636)</u>	<u>19,125</u>	<u>4,437</u>	<u>22,674</u>	<u>67</u>	<u>1,207</u>	<u>(2,532,114)</u>
—	1,029	20	—	772	—	8,303
—	—	—	—	—	—	8,913
—	—	—	—	—	—	1,357
—	1,029	20	—	772	—	18,573
<u>(13,064)</u>	<u>48,045</u>	<u>1,273,578</u>	<u>79,266</u>	<u>839</u>	<u>3,414</u>	<u>430,375</u>
28,410	25,387	1,181,943	44,422	839	740	3,640,534
—	—	—	—	—	—	119,993
1,795	503	31,325	455	—	—	50,432
—	—	45	—	80	—	125
<u>30,205</u>	<u>25,890</u>	<u>1,213,313</u>	<u>44,877</u>	<u>919</u>	<u>740</u>	<u>3,811,084</u>
(43,269)	22,155	60,265	34,389	(80)	2,674	(3,380,709)
621,860	193,677	(159,672)	(35,765)	1,351	11,943	59,846,844
<u>\$ 578,591</u>	<u>\$ 215,832</u>	<u>\$ (99,407)</u>	<u>\$ (1,376)</u>	<u>\$ 1,271</u>	<u>\$ 14,617</u>	<u>\$ 56,466,135</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Town of Butner water and sewer system is administered by the N.C. Department of Health and Human Services. The State issued revenue bonds to finance upgrades to the Town's water treatment plant, wastewater plant, sanitary sewer system, and water distribution system. This system provides water and sewer services to the State facilities in the Town of Butner as well as to other customers in southern Granville County. Summary financial information for the Town of Butner water and sewer system is presented below (dollars in thousands).

	Town of Butner Water and Sewer
Condensed Statement of Net Assets	
Assets:	
Current assets.....	\$ 7,149
Capital assets.....	20,206
Other assets.....	8,116
Total assets.....	<u>35,471</u>
Liabilities:	
Current liabilities.....	3,345
Noncurrent liabilities.....	9,665
Total liabilities.....	<u>13,010</u>
Net assets:	
Invested in capital assets, net of related debt.....	16,115
Restricted.....	1,069
Unrestricted.....	5,277
Total net assets.....	<u>\$ 22,461</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets	
Operating revenues (pledged against bonds).....	\$ 3,602
Depreciation expense.....	(619)
Other operating expenses.....	(2,276)
Operating income.....	<u>707</u>
Nonoperating revenues (expenses):	
Investment earnings.....	434
Interest expense.....	(240)
Other nonoperating revenues (expenses).....	(58)
Capital contributions.....	1,068
Transfers out.....	(158)
Change in net assets.....	<u>1,753</u>
Beginning net assets.....	20,708
Ending net assets.....	<u>\$ 22,461</u>
Condensed Statement of Cash Flows	
Net cash provided (used) by:	
Operating activities.....	\$ 1,329
Noncapital financing activities.....	(283)
Capital and related financing activities.....	(3,954)
Investing activities.....	4,634
Net increase (decrease).....	<u>1,726</u>
Beginning cash and cash equivalents.....	4,277
Ending cash and cash equivalents.....	<u>\$ 6,003</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: COMPONENT UNITS — CONDENSED FINANCIAL INFORMATION

Condensed financial statements for component unit funds as of and for the fiscal year ended June 30, 2002 are presented below (dollars in thousands).

Condensed Statement of Net Assets

	Golden LEAF Foundation	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Assets:							
Cash, investments, and other assets	\$ 236,774	\$ 4,217,284	\$ 214,446	\$ 1,589,126	\$ 1,698,587	\$ 104,960	\$ 8,061,177
Due from primary government	—	106,998	22,886	—	25,296	497	155,677
Due from component units	—	461	123	—	—	—	584
Capital assets, net	35	3,885,199	1,006,465	286	8,229	219,822	5,120,036
Total Assets	<u>236,809</u>	<u>8,209,942</u>	<u>1,243,920</u>	<u>1,589,412</u>	<u>1,732,112</u>	<u>325,279</u>	<u>13,337,474</u>
Liabilities:							
Accounts payable and other current liabilities	5,534	963,430	36,437	18,830	82,734	8,469	1,115,434
Due to primary government	—	1,580	46	6	—	16,586	18,218
Due to component units	584	—	—	—	—	—	584
Advance from primary government	—	—	—	—	—	55,908	55,908
Long-term liabilities	—	1,456,456	32,348	1,326,406	1,106,171	21,881	3,943,262
Total Liabilities	<u>6,118</u>	<u>2,421,466</u>	<u>68,831</u>	<u>1,345,242</u>	<u>1,188,905</u>	<u>102,844</u>	<u>5,133,406</u>
Net Assets:							
Invested in capital, net of related debt	35	2,678,511	993,034	286	8,229	171,571	3,851,666
Restricted	—	1,892,838	92,142	231,901	529,686	7,192	2,753,759
Unrestricted	230,656	1,217,127	89,913	11,983	5,292	43,672	1,598,643
Total Net Assets	<u>\$ 230,691</u>	<u>\$ 5,788,476</u>	<u>\$ 1,175,089</u>	<u>\$ 244,170</u>	<u>\$ 543,207</u>	<u>\$ 222,435</u>	<u>\$ 8,204,068</u>

NOTES TO THE FINANCIAL STATEMENTS**Condensed Statement of Activities**

	Golden LEAF Foundation	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Total expenses	\$ 11,366	\$ 5,132,174	\$ 1,155,149	\$ 161,449	\$ 101,819	\$ 197,548	\$ 6,759,505
Program revenues:							
Charges for services	—	3,045,092	183,081	170,778	69,352	39,958	3,508,261
Operating grants and contributions	(12,995)	391,424	345,531	—	53,254	10,774	787,988
Capital grants and contributions	—	35,484	54,361	—	—	11,044	100,889
Net program (expense) revenue	(24,361)	(1,660,174)	(572,176)	9,329	20,787	(135,772)	(2,362,367)
Non-tax general revenues:							
State operating aid	87,918	1,638,901	569,006	11,213	25,296	141,268	2,473,602
State capital aid	—	167,772	38,834	—	—	10,700	217,306
Miscellaneous	—	1,919	—	—	—	465	2,384
Total non-tax general revenues	87,918	1,808,592	607,840	11,213	25,296	152,433	2,693,292
Contributions to term and permanent endowments	—	29,797	1,351	—	—	—	31,148
Change in net assets	63,557	178,215	37,015	20,542	46,083	16,661	362,073
Net assets, July 1, as restated	167,134	5,610,261	1,138,074	223,628	497,124	205,774	7,841,995
Net assets, June 30	\$ 230,691	\$ 5,788,476	\$ 1,175,089	\$ 244,170	\$ 543,207	\$ 222,435	\$ 8,204,068

Significant Transactions Between Component Units

	Golden LEAF Foundation	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Golden LEAF Foundation grants	\$ (2,250)	\$ 1,855	\$ 395	\$ —	\$ —	\$ —	\$ —
UNC System operating aid	—	(25,752)	—	—	25,752	—	—

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: RELATED ORGANIZATION

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. Any appointed director may be removed from office by the Governor for cause. Any elected director may be removed at will by the Board.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: 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 2041, the outstanding principal of such bonds and notes as of June 30, 2002, was \$4.3 billion with interest rates varying from 2.30 % to 7.57 %.

In 1977, the State created the North Carolina Industrial Facilities and Pollution Control Financing Authority which was authorized to issue tax-exempt bonds and notes to provide funds 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 North Carolina Educational Facilities Finance Agency was created in 1986 and was authorized by the State to issue tax-exempt bonds and notes to finance facilities and structures at private nonprofit colleges and universities, which authority was subsequently expanded to include such institutions providing kindergarten, elementary and secondary education.

Effective July 1, 2000, the State renamed the North Carolina Educational Finance Agency as the North Carolina Capital Facilities Finance Agency. Its authority to issue bonds and notes was expanded to include financing private sector capital improvements for activities that constitute a public purpose. Additionally, all acts of the North Carolina Industrial Facilities and Pollution Control Financing Authority were ratified; all duties, powers, jurisdiction, and responsibilities vested by statute or contract in the Authority were transferred to the North Carolina Capital Facilities Finance Agency; and the Authority was dissolved.

The bonds of the North Carolina Capital Facilities Finance Agency are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2041, the outstanding principal of such

bonds and notes as of June 30, 2002, was \$1.3 billion with fixed interest rates varying from 2.4% to 7.1% and variable interest rates which can be reset weekly.

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. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002 the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. Although a Notice of Appeal has again been filed, the State did not seek a stay of the order and has undertaken preliminary measures to respond to the Court's directive. The magnitude of State resources which may ultimately be required cannot be determined at this time, however, the total cost could exceed \$100 million.

NOTES TO THE FINANCIAL STATEMENTS***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.

On December 14, 2001, the Superior Court of Wake County granted summary judgment in favor of the plaintiffs on all issues, concluding that the funds in dispute are civil fines or penalties required by Article IX, Section 7 of the Constitution to be remitted to the public schools in the county where the violation occurred. The court further determined a three-year statute of limitations to be applicable, making the order retroactive to December 1995. A Notice of Appeal has been filed in the Court of Appeals.

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 in excess of \$95.1 million. A liability of \$10 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 subsequently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of \$80 million of Compact payments expended on the permitting of the site, plus \$10 million of future lost income, interest and attorney fees. The Supreme Court denied this motion in August 2001. On August 5, 2002 the Compact, with the addition of four member states as plaintiffs, filed a new motion requesting the United States Supreme Court to accept the claim under its original jurisdiction. The State has replied, requesting that the motion be denied.

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

State Employees Association of North Carolina v. State; Stone v. State — Diversion of Employer's Retirement System Contribution.

On May 22, 2001, SEANC filed an action in Wake County Superior Court demanding repayment of approximately \$129 million in employer retirement contributions to the Retirement Systems. The Governor withheld, and subsequently used, the withheld funds under his constitutional authority to balance the state budget. The trial court dismissed the action on May 23, 2001 and plaintiffs have appealed to the Court of Appeals. In June, 2002, the *Stone* case was filed in Wake County Superior Court on behalf of individual state employees and retirees seeking repayment of the withheld employer contribution and a prohibition against future diversions. The State has filed a Motion to Dismiss.

The North Carolina Attorney General's Office believes that sound legal arguments support the state's defense of these cases.

Cabarrus County v. Tolson — Diversion of Local Government Tax Reimbursements and Shared Revenue.

On September 17, 2002, six counties and three municipalities filed suit against the Secretary of Revenue in Wake County Superior Court, demanding that the State release payments of local tax reimbursements and shared revenues in excess of \$200 million and a prohibition against future diversions. The Governor, in the exercise of his constitutional responsibility to balance the state budget, withheld approximately \$211 million in tax revenues designated by statute for payment to local governments. The State has filed a Motion to Dismiss.

The North Carolina Attorney General's Office believes that sound legal arguments support the defense of this action.

NOTES TO THE FINANCIAL STATEMENTS

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

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2002, the State is unable to estimate what liabilities may result from such audits.

D. Highway Construction

The State may be liable for approximately \$88.46 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional \$28.31 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 \$39.04 million.

E. USDA-Donated Commodities

The State has custodial responsibility for \$3.03 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, 2002, the State had commitments of \$1.6 billion for construction of highway facilities. Of this amount, \$1.2 billion relates to the Highway Fund, and \$388.7 million relates to the Highway Trust Fund. The other commitments for construction and improvements of State government facilities totaled \$396.6 million (including \$344.9 million for the Department of Environment and Natural Resources, \$17.5 million for the Department of Correction, and \$13.1 million for the Department of Health and Human Services).

At June 30, 2002, the University of North Carolina system (component unit) had outstanding construction commitments of \$370.5 million (including \$40.9 million for University of North

Carolina - Charlotte, \$35.2 million for UNC Hospitals, and \$38.2 million for North Carolina State University).

At June 30, 2002, community colleges (component units) had outstanding construction commitments of \$84.0 million (including \$10.5 million for Guilford Technical Community College, \$9.9 million for Central Piedmont Community College, and \$7.9 million for Halifax Community College).

At June 30, 2002, other component units had outstanding commitments of \$53.3 million (including \$34.8 million for NC Railroad Company and \$13.5 million for NC State Ports Authority).

During the fiscal year, the State entered into contracts with a private developer for the construction of three close security prisons. The State agreed that upon completion of the prisons in 2003, the North Carolina Infrastructure Finance Corporation (Corporation), a special nonprofit corporation authorized by the General Assembly, would buy the facilities for \$224 million. The Corporation would then lease the facilities to the N.C. Department of Corrections for twenty years. The purchase of the prisons will be financed by tax exempt, certificates of participation to be sold by the Corporation. The lease payments are projected to total \$370 million over the 20-year period or about \$18.7 million annually. At the end of the lease, the State would own the prisons.

G. Tobacco Settlement

In 1998, North Carolina, along with forty-five other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will actually receive from this settlement remains uncertain, but projections are that the state will receive approximately \$4.6 billion through the year 2025. In the early years of MSA, participating States receive initial payments that are distinct from annual payments. The initial payments are made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some these adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. Because the present value of the future settlement payments is not

NOTES TO THE FINANCIAL STATEMENTS

measurable, the State has not recorded a receivable for the future payments at June 30.

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

In 2000, the State enacted legislation that established the Health and Wellness Trust Fund and the Tobacco Trust Fund and created commissions charged with managing these funds. Each fund will receive 25 percent of the tobacco settlement payments. The purpose of the Health and Wellness Trust Fund is to finance programs and initiatives to improve the health and wellness of the people of North Carolina. An eighteen-member Health and Wellness Trust Fund Commission will administer the Fund. The primary purpose of the Tobacco Trust Fund is to compensate the tobacco-related segment of North Carolina's economy for the economic hardship it is expected to experience as a result of the MSA. An eighteen-member Tobacco Trust Fund Commission will administer the Fund. The Health and Wellness Trust Fund and Tobacco Trust Fund are reported as special revenue funds.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

Effective July 1, 2001, the State implemented the following new financial accounting and reporting standards issued by the GASB:

- Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (as amended by Statement No. 37)*
- Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*
- Statement No. 38, *Certain Financial Statement Note Disclosures (paragraphs 6 through 11 only)*
- Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States. For the first time, government-wide financial statements now accompany the traditional fund-based financial statements. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In addition, the fund financial statements now focus on a government’s most important or “major” individual funds. Statement No. 34 also made several changes in fund definitions and eliminated the two account groups for general fixed assets and general long-term obligations. As a result, the State’s capital assets, including infrastructure assets, and long-term obligations are included in the balances of the government-wide statements. The basic financial statements are preceded by a Management’s Discussion and Analysis, which is required supplementary information (RSI). Furthermore, the budgetary information for the General Fund is now presented in the RSI, rather than as part of the basic financial statements.

Statement No 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The University of North Carolina System and community colleges, which are reported as discretely presented component units, have implemented the requirements of Statement Nos. 34 and 35.

Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements. Paragraphs 6 through 11 of the standard became effective this fiscal year. These paragraphs impact disclosures related to the summary of significant accounting policies, debt and lease obligations, and violations of finance related legal or contractual provisions. The remaining provisions of Statement No. 38 will be implemented in the fiscal year ending June 30, 2003.

Interpretation No. 6 clarifies the existing modified accrual standards for distinguishing the portion of a liability that should be reported as a governmental fund liability and expenditure from the portion that should be reported as a general long-term liability (i.e., government-wide reporting only).

The accounting changes adopted to implement these new GASB pronouncements were reported as a restatement of beginning net assets, fund balance, or fund equity as appropriate (see Note 19). Also, the beginning asset and liability balances of the State’s agency funds have been restated.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the "GASB 34/35 Implementation" column are due to the State's adoption of GASB Statement Nos. 34 and 35 and Interpretation No. 6 as discussed in Note 18, Accounting Changes. The amounts in the "Other Adjustments" column are due primarily to the correction of errors related to prior periods.

	July 1, 2001 Fund Equity As Previously Reported	GASB 34/35 Implementation	Other Adjustments	July 1, 2001 Fund Equity as Restated
Primary Government				
Major Governmental Funds:				
General Fund	\$ (32,433)	\$ 17,062	\$ (12,715)	\$ (28,086)
Highway Fund	394,338	1,716	—	396,054
Highway Trust Fund	700,553	—	—	700,553
Other Governmental Funds:				
Special Revenue Funds	1,488,843	854,895	(1,207)	2,342,531
Capital Projects Funds	137,419	132	(792)	136,759
Permanent Funds	—	47,592	—	47,592
Total Governmental Funds	<u>2,688,720</u>	<u>921,397</u>	<u>(14,714)</u>	<u>3,595,403</u>
Internal Service Funds	508,605	(276,235)	(22,522)	209,848
Government-wide adjustments:				
Capital assets	—	20,776,812	—	20,776,812
Unavailable deferred revenues	—	193,166	—	193,166
Long-term debt	—	(3,279,242)	—	(3,279,242)
Other liabilities	—	(41,859)	—	(41,859)
Other	—	—	(1,016)	(1,016)
Total Government-wide adjustments	<u>—</u>	<u>17,648,877</u>	<u>(1,016)</u>	<u>17,647,861</u>
Total Governmental Activities	<u>\$ 3,197,325</u>	<u>\$ 18,294,039</u>	<u>\$ (38,252)</u>	<u>\$ 21,453,112</u>
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	\$ —	\$ 1,308,314	\$ —	\$ 1,308,314
Other enterprise funds	91,333	(3,491)	(589)	87,253
Total Business-type Activities - Enterprise Funds	<u>\$ 91,333</u>	<u>\$ 1,304,823</u>	<u>\$ (589)</u>	<u>\$ 1,395,567</u>
Fiduciary Funds				
Pension Trust Funds	\$ 59,130,838	\$ 633,394	\$ 82,612	\$ 59,846,844
Investment Trust Funds	497,149	—	—	497,149
Private Purpose Trust Funds	—	700,680	—	700,680
Total Fiduciary Funds	<u>\$ 59,627,987</u>	<u>\$ 1,334,074</u>	<u>\$ 82,612</u>	<u>\$ 61,044,673</u>
Funds Eliminated by GASB 34:				
Expendable Trust Funds	\$ 2,285,985	\$ (2,285,985)	\$ —	\$ —
Nonexpendable Trust Funds	561,236	(561,236)	—	—
Component Units				
Golden LEAF Foundation	\$ 167,100	\$ 34	\$ —	\$ 167,134
University of North Carolina System	8,056,470	(2,434,030)	(12,179)	5,610,261
Community Colleges	1,645,886	(497,437)	(10,375)	1,138,074
NC Housing Finance Agency	177,321	46,307	—	223,628
State Education Assistance Authority	497,124	—	—	497,124
Other component units	167,444	195,452	(157,122)	205,774
Total Component Units	<u>\$ 10,711,345</u>	<u>\$ (2,689,674)</u>	<u>\$ (179,676)</u>	<u>\$ 7,841,995</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: SUBSEQUENT EVENTS

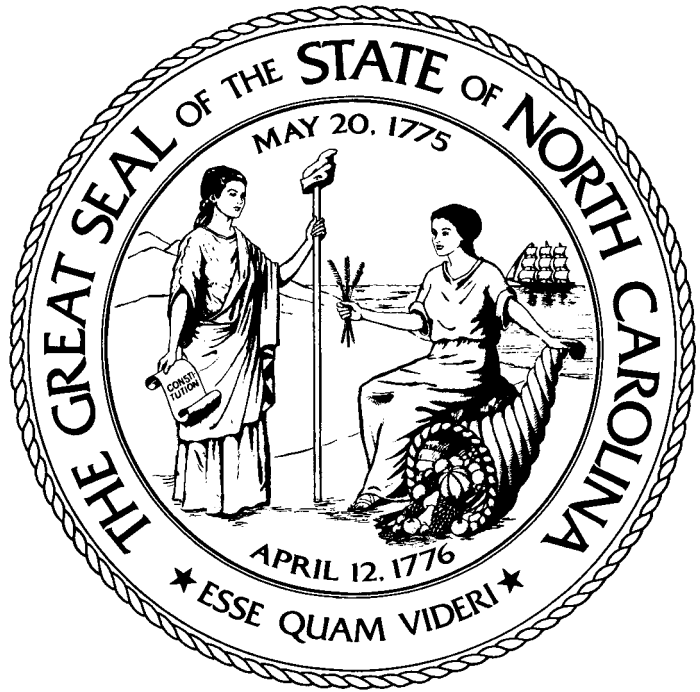
Litigation

W.D. Goldston, Jr., James E. Harrington, and citizens, taxpayers and bondholders similarly situated v. State of North Carolina and Michael F. Easley, Governor. On November 14, 2002 a former Secretary of the Department of Transportation and a retired State Senator sued the Governor and the State of North Carolina for using Highway Trust Fund money in the State's General Fund. On February 5, 2002 Governor Easley issued Executive Order No. 19. The Order transferred \$80 million from the Highway Trust Fund to the General Fund for purposes of balancing the State budget. Also, the General Assembly in its 2002 Special Session authorized the transfer of \$80 million from Highway Trust Fund to the General Fund. Finally, the General Assembly authorized an additional \$125 million from the Highway Trust Fund to the General Fund during fiscal year 2003 in the form of a loan. The General Assembly plans to transfer funds from the General Fund back to the Highway Trust Fund during fiscal years 2004-2005 through 2008-2009 including interest at the net rate of return generated by the State Treasurer's Short Term Investment Fund. The suit alleges that actions of the General Assembly regarding the transfer of certain funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund's cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes.

The North Carolina Attorney General's Office believes that sound legal arguments support the defense of this action.

North Carolina General Obligation Bonds

On December 4, 2002, the State sold \$125.280 million of general obligation bonds consisting of \$18.8 million Clean Water Bonds, Series 2002A, \$50 million Natural Gas Bonds, Series 2002A and \$56.480 million Refunding Bonds, Series 2002A. Also, on December 11, 2002, the State sold \$499.870 million of Variable Rate Refunding Bonds, Series 2002B, 2002C, 2002D, 2002E, and 2002F. These Bonds are dated December 1, 2002 and will bear interest from that date. Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2003. Simultaneously with the closing of the variable rate transaction, the State synthetically fixed the interest rate on these bonds by entering into swap agreements. The bonds will mature, subject to the respective optional redemption provisions as follows: Clean Water Bonds will mature from June 1, 2003 through 2019 with amounts varying from \$105,000 to \$4.9 million. Natural Gas Bonds will mature from June 1, 2004 through 2008 in the amount of \$10 million each year. The fixed rate Refunding Bonds will mature June 1, 2003 through 2011 with amounts varying from \$2.3 million to \$10.4 million. The variable rate refunding bonds will mature from June 1, 2012 through 2019 with amounts varying from \$22.6 million to \$139.9 million.



**REQUIRED
SUPPLEMENTARY
INFORMATION**

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

June 30, 2002

(Expressed in Thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)	NOTE 1			
Teachers' and State Employees'	12-31-01	\$ 42,104,086	\$ 37,713,663	\$ (4,390,423)	111.6%	\$ 9,494,603	(46.2)%
	12-31-00 B	39,773,747	35,248,770	(4,524,977)	112.8%	9,001,354	(50.3)%
	12-31-99 B	36,119,250	32,787,108	(3,332,142)	110.2%	8,437,649	(39.5)%
	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%
Consolidated Judicial	12-31-01	\$ 311,221	\$ 285,692	\$ (25,529)	108.9%	\$ 47,773	(53.4)%
	12-31-00	291,807	269,181	(22,626)	108.4%	43,546	(52.0)%
	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)%
Legislative	12-31-01	\$ 24,231	\$ 18,551	\$ (5,680)	130.6%	\$ 3,691	(153.9)%
	12-31-00	22,314	17,733	(4,581)	125.8%	3,785	(121.0)%
	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)%
Firemen's, Rescue Squad Workers'	6-30-01	\$ 225,276	\$ 230,796	\$ 5,520	97.6%	N/A	N/A
	6-30-00 C	202,751	240,335	37,584	84.4%	N/A	N/A
	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
National Guard	12-31-01	\$ 46,314	\$ 52,235	\$ 5,921	88.7%	N/A	N/A
	12-31-00	43,886	49,495	5,609	88.7%	N/A	N/A
	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
Local Governmental	12-31-01	\$ 10,764,032	\$ 10,836,460	\$ 72,428	99.3%	\$ 3,597,769	2.0%
	12-31-00	9,892,805	9,967,548	74,743	99.3%	3,344,615	2.2%
	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%

NOTE 1 a negative UAAL denotes excess actuarial assets

- A-** Actuarial value of assets was revised from cost to 5-year smoothed market
B- For 12-31-98, legislation directed the 5-year smoothed market value to be capped at 77% of actual market value. The 2001 Session of the General Assembly removed this cap. These asset values were adjusted or restated for the effects of these changes.
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 98.

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

For the Six-Year Period 1997 to 2002 (July 1 to June 30)

(Expressed in Thousands)

<i>Retirement System</i>	<i>State Fiscal Year</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>	
Teachers' and State Employees'	2002	\$ 196,003	100%	A
	2001	513,907	76%	
	2000	735,393	100%	
	1999	630,049	100%	
	1998	610,377	100%	
	1997	593,481	100%	
Consolidated Judicial	2002	\$ 7,003	100%	A
	2001	9,071	75%	
	2000	8,435	100%	
	1999	7,263	100%	
	1998	8,485	100%	
	1997	7,976	100%	
Legislative	2002	\$ 858	97%	A
	2001	861	71%	
	2000	811	100%	
	1999	770	104%	
	1998	741	108%	
	1997	742	108%	
Firemen's, Rescue Squad Workers'	2002	\$ 10,027	100%	
	2001	12,105	92%	
	2000	12,105	100%	
	1999	12,105	100%	
	1998	11,735	100%	
	1997	11,735	100%	
National Guard	2002	\$ 1,542	58%	
	2001	2,075	100%	
	2000	2,545	100%	
	1999	2,533	100%	
	1998	2,533	100%	
	1997	2,303	100%	
Local Governmental Employees'	2002	\$ 192,170	100%	
	2001	179,238	100%	
	2000	168,201	100%	
	1999	157,764	100%	
	1998	149,058	100%	
	1997	142,952	100%	

A - The percentage contributed for 2001, as reported in the 2001 CAFR, is increased here to reflect additional revenue from financial restatements in 2002 dealing with unrecorded receivables.

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 98.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
UNRESERVED FUND BALANCE — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)
GENERAL FUND

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Revenues:				
Taxes:				
Individual income.....	\$ 8,179,300	\$ 8,179,300	\$ 7,134,630	\$ (1,044,670)
Corporate income.....	586,400	586,400	409,323	(177,077)
Sales and use.....	3,796,300	3,796,300	3,705,770	(90,530)
Franchise.....	639,000	639,000	446,271	(192,729)
Insurance.....	321,600	321,600	340,785	19,185
Beverage.....	174,000	174,000	174,645	645
Other.....	259,500	259,500	233,238	(26,262)
Non-Tax:				
Fees, licenses and fines.....	112,000	112,000	110,381	(1,619)
Investment income.....	166,800	166,800	132,592	(34,208)
Disproportionate share receipts.....	107,000	107,000	110,404	3,404
Other.....	184,900	184,900	177,944	(6,956)
Transfers in.....	186,200	186,200	186,260	60
Departmental:				
Federal funds.....	6,036,969	7,526,591	6,704,307	(822,284)
Local funds.....	818,291	843,374	800,750	(42,624)
Inter-agency grants and allocations.....	6,818	79,743	73,175	(6,568)
Intra-governmental transactions.....	630,137	2,444,758	1,898,426	(546,332)
Sales and services.....	60,514	63,193	60,022	(3,171)
Sale, rental and lease of property.....	5,410	11,815	12,169	354
Fees, licenses and fines.....	151,552	155,997	163,896	7,899
Contributions, gifts and grants.....	21,882	29,730	24,532	(5,198)
Miscellaneous.....	61,545	130,437	81,329	(49,108)
Universities.....	535,061	641,387	628,265	(13,122)
Total Revenues.....	<u>23,041,178</u>	<u>26,640,025</u>	<u>23,609,114</u>	<u>(3,030,911)</u>
Expenditures:				
Current:				
General government.....	497,727	856,852	589,077	267,775
Primary and secondary education.....	6,541,338	6,958,729	6,618,325	340,404
Higher education.....	785,330	877,710	789,747	87,963
Health and human services.....	10,222,581	11,791,175	11,245,854	545,321
Environment and natural resources.....	279,956	321,724	253,536	68,188
Economic development.....	121,927	136,344	124,872	11,472
Public safety, corrections, and regulation.....	1,551,058	2,528,317	1,885,405	642,912
Transportation.....	10,030	10,026	8,413	1,613
Agriculture.....	75,703	85,508	75,158	10,350
Capital outlay.....	157,936	157,936	32,936	125,000
Debt service.....	301,429	301,429	300,560	869
Universities.....	2,313,510	2,431,621	2,264,123	167,498
Total Expenditures.....	<u>22,858,525</u>	<u>26,457,371</u>	<u>24,188,006</u>	<u>2,269,365</u>
Excess revenues over (under)				
expenditures.....	182,653	182,654	(578,892)	(761,546)
Transfers from reserves.....	—	—	564,257	564,257
Transfers to reserves.....	(181,800)	(181,750)	(90,000)	91,750
Nonrecurring transfers from other funds.....	—	—	108,421	108,421
Unreserved fund balances (budgetary basis) at July 1, 2001.....	—	—	—	—
Unreserved fund balances (budgetary basis) at June 30, 2002.....	<u>\$ 853</u>	<u>\$ 904</u>	<u>\$ 3,786</u>	<u>\$ 2,882</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND BUDGETARY REPORTING

A. General Fund Budgetary Process

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

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

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.

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

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

B. Reconciliation of Budget/GAAP Reporting Differences

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

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

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

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

The following table presents a reconciliation of resulting entity, basis, and timing differences in the fund balances (budgetary basis) at June 30, 2002 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

	<i>General Fund</i>
Unreserved fund balance (budgetary basis), June 30, 2002	\$ 3,786
Reserved fund balance (budgetary basis),	
Retirees' health premium.....	50,810
Disaster relief.....	317,235
N.C. Railroad acquisition.....	22,081
Fund balance (budgetary basis).....	<u>\$ 393,912</u>
Reconciling Adjustments:	
Entity Differences:	
Primary government:	
Other.....	142,052
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	745,719
Accounts receivable.....	104,539
Federal funds, net.....	571,488
Other receivables.....	138,069
Less:	
Tax refunds payable.....	(945,426)
Deferred revenue.....	(474,486)
Total accrued revenues.....	<u>139,903</u>
Accrued expenditures:	
Medical claims payable.....	(698,338)
Accounts payable and accrued liabilities.....	(499,004)
Other payables.....	(22,714)
Total accrued expenditures.....	<u>(1,220,056)</u>
Other Adjustments:	
Notes receivable.....	4,114
Inventories.....	43,772
Investments.....	148
Timing Differences:	
Authorized carryforward for specific encumbrances.....	27,673
Authorized carryforward for designated programs.....	119,931
Fund balance (GAAP basis) June 30, 2002.....	<u><u>(\$348,551)</u></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. Funds were not transferred to the Savings Reserve Account for fiscal year 2001-2002 in accordance with Session Law 2002-126, Senate Bill 1115, Section 2.2.(m).

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. Funds were not transferred to the Repairs and Renovations Reserve Account for fiscal year 2001-2002 in accordance with Session Law 2002-126, Senate Bill 1115, Section 2.2 (n).

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. For the fiscal year 2001-2002, no funds were placed in this reserve.

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. During the fiscal year 2001-02 the State received \$9.5 million in dividends from the North Carolina Railroad Company, thus reducing the outstanding obligation to \$22.1 million.

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Easley Executive Order No. 19 Reserve. On February 5, 2002, Governor Easley signed Executive Order Number 19 authorizing a Declaration of Emergency and directing the Office of State Budget and Management (OSBM) to take necessary measures to insure a balanced budget for 2001-2002 fiscal year. Measures taken by OSBM included spending restrictions, suspension of local government reimbursements, cash balance transfers from agency Special Revenue Funds, Trust Funds and Internal Service Funds, and transfers from the Savings Reserve, Tobacco Settlement, and Highway Trust Fund. The Easley Executive Order No. 19 Reserve specifically accounted for the local government reimbursement of \$212.9 million, and Tobacco Settlement funds of \$112 million. Per instructions from OSBM, the entire balance was transferred to

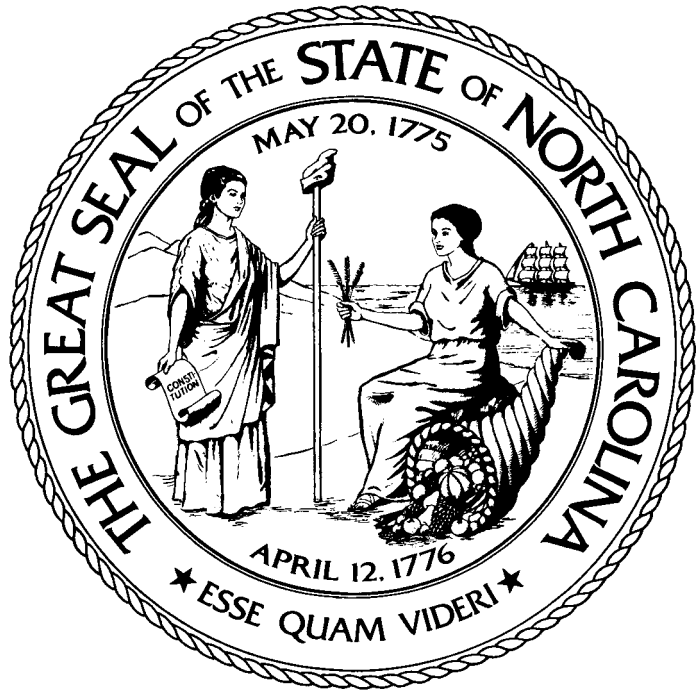
General Fund Availability at the end of the fiscal year 2001-2002, leaving an ending balance of zero.

Disaster Relief Reserve. The 1996 Second Extra Session, Section 7.9, Chapter 18 of House Bill 53 authorized the Director of Budget to create the Disaster Relief Reserve. At the beginning of fiscal year 2001-2002, this reserve had a balance of \$448.6 million. During the fiscal year \$131.4 million was transferred to Hurricane Floyd and Fran programs of recovery. The 2001-2002 fiscal year ended with a balance of \$317 million.

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

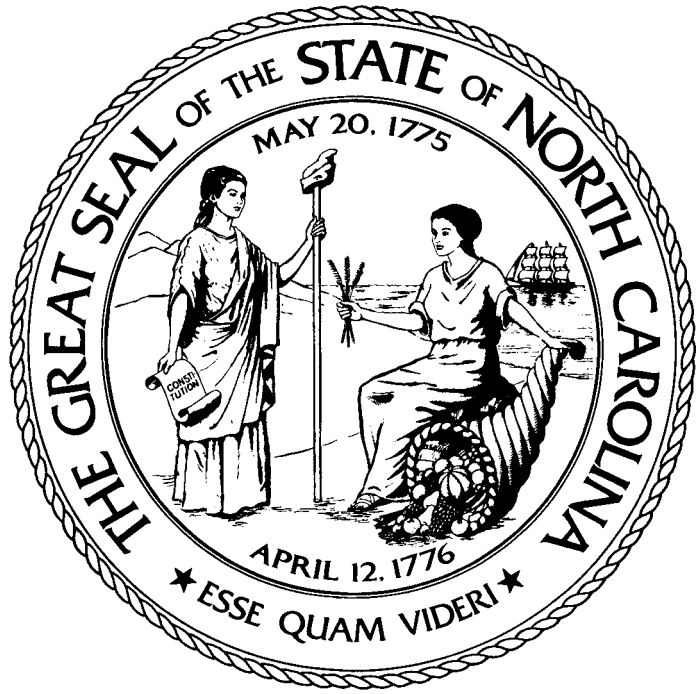
General Fund Reserved Fund Balance	Balance June 30, 2001	Increases		(Decreases)		Balance June 30, 2002
		Transfers from General Fund Unreserved Fund Balance	Unbudgeted Revenues	Transfers to General Fund Unreserved Fund Balance	Unbudgeted Expenditures	
Savings.....	\$ 157,522	\$ 90,000	\$ 7,352	\$ (239,342)	\$ (15,532)	\$ —
Retirees' health premium...	53,895	—	—	—	(3,085)	50,810
N.C. Railroad acquisition...	31,582	—	—	—	(9,501)	22,081
Disproportionate share.....	1,170	—	—	—	(1,170)	—
Disaster relief.....	448,608	—	123,583	—	(254,956)	317,235
Exec. Order #3.....	178,472	2,911	—	—	(181,383)	—
Exec. Order #19.....	—	—	440,915	(324,915)	(116,000)	—
Total.....	\$ 871,249	\$ 92,911	\$ 571,850	\$ (564,257)	\$ (581,627)	\$ 390,126

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*COMBINING FUND
STATEMENTS
AND
SCHEDULES*

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*NONMAJOR
GOVERNMENTAL
FUNDS*

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2002

Exhibit C-1

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,635,672	\$ 125,087	\$ 388	\$ 1,761,147
Investments	396,053	—	—	396,053
Securities lending collateral	820,686	—	19,693	840,379
Receivables, net:				
Taxes receivable.....	2,163	—	—	2,163
Accounts receivable.....	28,645	276	—	28,921
Intergovernmental receivable.....	4,582	5,725	—	10,307
Interest receivable.....	7,769	5	2	7,776
Other receivables.....	17	—	—	17
Due from fiduciary funds.....	216	—	—	216
Due from other funds	23,335	2,704	—	26,039
Due from component units	2,659	—	—	2,659
Inventories.....	27,333	—	—	27,333
Prepaid items.....	57	—	—	57
Advances to component units	25,000	—	—	25,000
Notes receivable.....	519,732	—	—	519,732
Securities held in trust.....	34,924	—	—	34,924
Endowment investments.....	—	—	49,730	49,730
Total Assets.....	<u>\$ 3,528,843</u>	<u>\$ 133,797</u>	<u>\$ 69,813</u>	<u>\$ 3,732,453</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities				
Accounts payable.....	\$ 40,140	\$ 9,738	\$ 1	\$ 49,879
Accrued payroll.....	1,347	—	—	1,347
Intergovernmental payable.....	9,537	159	—	9,696
Claims payable.....	21,658	—	—	21,658
Obligations under securities lending.....	820,686	—	19,693	840,379
Due to other funds	21,118	44	—	21,162
Due to component units	144,067	—	—	144,067
Deferred revenue.....	18,242	—	—	18,242
Deposits payable.....	11	—	—	11
Funds held for others.....	34,931	—	—	34,931
Total Liabilities.....	<u>1,111,737</u>	<u>9,941</u>	<u>19,694</u>	<u>1,141,372</u>
Fund Balances:				
Reserved.....	945,481	50,105	49,893	1,045,479
Unreserved.....	1,471,625	73,751	226	1,545,602
Total Fund Balance.....	<u>2,417,106</u>	<u>123,856</u>	<u>50,119</u>	<u>2,591,081</u>
Total Liabilities and Fund Balances.....	<u>\$ 3,528,843</u>	<u>\$ 133,797</u>	<u>\$ 69,813</u>	<u>\$ 3,732,453</u>

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

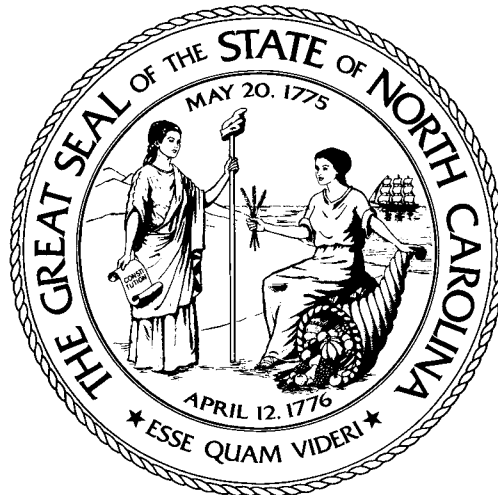
For the Fiscal Year Ended June 30, 2002

Exhibit C-2

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax.....	\$ 454	\$ —	\$ —	\$ 454
Corporate income tax.....	54,330	—	—	54,330
Sales and use tax.....	12,900	—	—	12,900
Gasoline tax.....	26,613	—	—	26,613
Insurance tax.....	7,108	—	—	7,108
Other taxes.....	96,970	—	—	96,970
Federal funds.....	312,782	35,199	—	347,981
Local funds.....	12,438	59	—	12,497
Investment earnings.....	110,475	112	3,136	113,723
Interest earnings on loans.....	15,747	—	—	15,747
Sales and services.....	125,015	1,138	76	126,229
Rental and lease of property.....	1,610	18	—	1,628
Fees, licenses, and fines.....	126,750	—	1,760	128,510
Contributions, gifts, and grants.....	30,222	25,869	5	56,096
Funds escheated.....	90,181	—	—	90,181
Miscellaneous.....	15,045	2,313	178	17,536
Total revenues.....	<u>1,038,640</u>	<u>64,708</u>	<u>5,155</u>	<u>1,108,503</u>
Expenditures:				
Current:				
General government.....	67,793	—	—	67,793
Primary and secondary education.....	306,960	—	—	306,960
Higher education.....	223,238	—	55	223,293
Health and human services.....	65,258	—	4	65,262
Economic development.....	310,027	—	—	310,027
Environment and natural resources.....	373,084	—	418	373,502
Public safety, corrections, and regulation.....	260,844	—	—	260,844
Agriculture.....	49,161	—	—	49,161
Capital outlay.....	—	126,011	—	126,011
Debt service:				
Bond issuance costs.....	257	—	—	257
Total expenditures.....	<u>1,656,622</u>	<u>126,011</u>	<u>477</u>	<u>1,783,110</u>
Excess revenues over (under) expenditures.....	<u>(617,982)</u>	<u>(61,303)</u>	<u>4,678</u>	<u>(674,607)</u>
Other Financing Sources (Uses):				
Bonds issued.....	605,000	—	—	605,000
Premium on debt issued.....	14,733	—	—	14,733
Sale of capital assets.....	4,888	182	—	5,070
Transfers in.....	404,769	55,825	—	460,594
Transfers out.....	(335,035)	(7,607)	(2,151)	(344,793)
Total other financing sources (uses).....	<u>694,355</u>	<u>48,400</u>	<u>(2,151)</u>	<u>740,604</u>
Net change in fund balances.....	<u>76,373</u>	<u>(12,903)</u>	<u>2,527</u>	<u>65,997</u>
Fund balances — July 1, as restated (Note 19).....	2,342,531	136,759	47,592	2,526,882
Increase (decrease) in reserve for related assets.....	(1,798)	—	—	(1,798)
Fund balances — June 30.....	<u>\$ 2,417,106</u>	<u>\$ 123,856</u>	<u>\$ 50,119</u>	<u>\$ 2,591,081</u>

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NONMAJOR SPECIAL REVENUE FUNDS

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

The following are included in the nonmajor special revenue funds:

- Escheat Fund
- Health and Wellness Trust
- Tobacco Trust
- Higher Education Bonds
- Public School Bond Fund
- Non-State Public Improvement Bonds
- Public School Building Capital Fund
- Clean Water Management Trust Fund
- Prison Enterprises
- Educational Materials and School Buses Fund
- Employment Security Commission Funds
- Natural Gas Funds
- Highway Patrol Fund
- Employment and Training Administration Fund
- Leaking Petroleum Underground Storage Tank Cleanup Fund
- Clean Water Funds
- Wildlife Resources Commission Fund
- Natural Heritage Trust Fund
- Departmental Funds

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2002

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust	Tobacco Trust	Higher Education Bonds	Public School Bond Fund	Non-State Public Improvement Bonds	Public School Building Capital Fund	Clean Water Management Trust Fund
ASSETS								
Cash and cash equivalents	\$ 34,134	\$ 101,152	\$ 8,217	\$ 48,500	\$ 57,673	\$ 537,117	\$ 76,282	\$ 103,147
Investments	394,720	—	—	—	—	—	—	—
Securities lending collateral	170,073	82,881	6,733	—	—	—	62,535	84,687
Receivables, net:								
Taxes receivable.....	—	—	—	—	—	—	—	—
Accounts receivable.....	—	—	—	—	—	—	—	—
Intergovernmental receivable.....	—	—	—	—	—	—	—	—
Interest receivable.....	140	409	—	82	83	788	433	421
Other receivables.....	—	—	—	—	—	—	—	—
Due from fiduciary funds.....	—	—	—	—	—	—	—	—
Due from other funds	—	—	—	—	—	—	—	—
Due from component units	2,649	—	—	—	—	—	—	—
Inventories.....	—	—	—	—	—	—	—	—
Prepaid items.....	—	—	—	—	—	—	—	—
Advances to component units	25,000	—	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	—	—
Securities held in trust.....	—	—	—	—	—	—	—	—
Total Assets.....	<u>\$ 626,716</u>	<u>\$ 184,442</u>	<u>\$ 14,950</u>	<u>\$ 48,582</u>	<u>\$ 57,756</u>	<u>\$ 537,905</u>	<u>\$ 139,250</u>	<u>\$ 188,255</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities								
Accounts payable.....	\$ 7	\$ 36	\$ 6	\$ —	\$ —	\$ —	\$ —	\$ 266
Accrued payroll.....	—	—	—	—	—	—	—	—
Intergovernmental payable.....	—	—	—	—	—	—	—	1,727
Claims payable.....	21,658	—	—	—	—	—	—	—
Obligations under securities lending.....	170,073	82,881	6,733	—	—	—	62,535	84,687
Due to other funds	—	1	—	1,958	—	12,167	—	122
Due to component units	25,296	—	—	13,054	—	82,614	—	—
Deferred revenue.....	6,960	—	—	—	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—	—
Funds held for others.....	—	—	—	—	—	—	—	—
Total Liabilities.....	<u>223,994</u>	<u>82,918</u>	<u>6,739</u>	<u>15,012</u>	<u>—</u>	<u>94,781</u>	<u>62,535</u>	<u>86,802</u>
Fund Balances:								
Reserved for:								
Inventories.....	—	—	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	—	—
Prepaid items.....	—	—	—	—	—	—	—	—
Capital projects.....	—	—	—	—	—	—	—	—
Loan and grant commitments.....	—	—	—	—	—	—	—	100,976
Other purposes.....	—	17,833	—	—	—	—	—	—
Unreserved:								
Undesignated.....	402,722	83,691	8,211	33,570	57,756	443,124	76,715	477
Total Fund Balances.....	<u>402,722</u>	<u>101,524</u>	<u>8,211</u>	<u>33,570</u>	<u>57,756</u>	<u>443,124</u>	<u>76,715</u>	<u>101,453</u>
Total Liabilities and Fund Balances.....	<u>\$ 626,716</u>	<u>\$ 184,442</u>	<u>\$ 14,950</u>	<u>\$ 48,582</u>	<u>\$ 57,756</u>	<u>\$ 537,905</u>	<u>\$ 139,250</u>	<u>\$ 188,255</u>

Exhibit C-3

Prison Enterprises	Educational Materials and School Buses Fund	Employment Security Commission Funds	Natural Gas Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Clean Water Funds
\$ 13,684	\$ 28,186	\$ 9,104	\$ 57,967	\$ 9,086	\$ 1,352	\$ 9,936	\$ 199,845
—	—	—	—	—	—	—	—
—	—	—	47,496	859	—	7,998	142,519
—	—	—	—	—	—	1,487	—
3,496	120	284	—	338	1	2,633	—
505	358	1,626	—	480	—	—	102
—	—	—	108	—	—	44	3,711
—	—	17	—	—	—	—	—
195	—	—	—	—	—	—	—
5,520	—	681	—	208	—	—	—
10	—	—	—	—	—	—	—
11,189	6,884	661	—	4,903	—	—	—
—	—	57	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	3,893	—	—	1,086	490,322
—	—	—	—	—	—	—	—
<u>\$ 34,599</u>	<u>\$ 35,548</u>	<u>\$ 12,430</u>	<u>\$ 109,464</u>	<u>\$ 15,874</u>	<u>\$ 1,353</u>	<u>\$ 23,184</u>	<u>\$ 836,499</u>
\$ 1,617	\$ 22,844	\$ 3,625	\$ —	\$ 4,973	\$ 4	\$ 75	\$ 225
15	—	163	—	255	—	—	—
—	59	631	—	—	—	—	2,404
—	—	—	—	—	—	—	—
—	—	—	47,496	859	—	7,998	142,519
118	—	9	—	182	4	292	1
—	—	—	—	—	—	—	—
2	—	—	—	208	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>1,752</u>	<u>22,903</u>	<u>4,428</u>	<u>47,496</u>	<u>6,477</u>	<u>8</u>	<u>8,365</u>	<u>145,149</u>
11,189	6,884	661	—	4,903	—	—	—
—	—	—	3,893	—	—	1,086	490,322
—	—	57	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	229,139
—	—	—	—	—	—	—	—
<u>21,658</u>	<u>5,761</u>	<u>7,284</u>	<u>58,075</u>	<u>4,494</u>	<u>1,345</u>	<u>13,733</u>	<u>(28,111)</u>
<u>32,847</u>	<u>12,645</u>	<u>8,002</u>	<u>61,968</u>	<u>9,397</u>	<u>1,345</u>	<u>14,819</u>	<u>691,350</u>
<u>\$ 34,599</u>	<u>\$ 35,548</u>	<u>\$ 12,430</u>	<u>\$ 109,464</u>	<u>\$ 15,874</u>	<u>\$ 1,353</u>	<u>\$ 23,184</u>	<u>\$ 836,499</u>

Continued

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2002

Exhibit C-3

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Departmental Funds	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and cash equivalents	\$ 16,198	\$ 10,329	\$ 313,763	\$ 1,635,672
Investments	—	—	1,333	396,053
Securities lending collateral	11,250	12,991	190,664	820,686
Receivables, net:				
Taxes receivable.....	—	—	676	2,163
Accounts receivable.....	359	—	21,414	28,645
Intergovernmental receivable.....	821	—	690	4,582
Interest receivable.....	53	46	1,451	7,769
Other receivables.....	—	—	—	17
Due from fiduciary funds.....	—	—	21	216
Due from other funds	216	232	16,478	23,335
Due from component units	—	—	—	2,659
Inventories.....	1,472	—	2,224	27,333
Prepaid items.....	—	—	—	57
Advances to component units	—	—	—	25,000
Notes receivable.....	—	—	24,431	519,732
Securities held in trust.....	—	—	34,924	34,924
Total Assets.....	<u>\$ 30,369</u>	<u>\$ 23,598</u>	<u>\$ 608,069</u>	<u>\$ 3,528,843</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities				
Accounts payable.....	\$ 20	\$ 15	\$ 6,427	\$ 40,140
Accrued payroll.....	121	—	793	1,347
Intergovernmental payable.....	—	—	4,716	9,537
Claims payable.....	—	—	—	21,658
Obligations under securities lending.....	11,250	12,991	190,664	820,686
Due to other funds	138	—	6,126	21,118
Due to component units	—	—	23,103	144,067
Deferred revenue.....	—	—	11,072	18,242
Deposits payable.....	—	—	11	11
Funds held for others.....	—	—	34,931	34,931
Total Liabilities.....	<u>11,529</u>	<u>13,006</u>	<u>277,843</u>	<u>1,111,737</u>
Fund Balances:				
Reserved for:				
Inventories.....	1,472	—	2,224	27,333
Notes receivable.....	—	—	24,431	519,732
Prepaid items.....	—	—	—	57
Capital projects.....	—	—	—	—
Loan and grant commitments.....	—	7,385	1,211	338,711
Other purposes.....	17,368	—	24,437	59,638
Unreserved:				
Undesignated.....	—	3,207	277,913	1,471,625
Total Fund Balances.....	<u>18,840</u>	<u>10,592</u>	<u>330,216</u>	<u>2,417,096</u>
Total Liabilities and Fund Balances.....	<u>\$ 30,369</u>	<u>\$ 23,598</u>	<u>\$ 608,059</u>	<u>\$ 3,528,833</u>

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

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust	Tobacco Trust	Higher Education Bonds	Public School Bond Fund	Non-State Public Improvement Bonds	Public School Building Capital Fund	Clean Water Management Trust Fund
Revenues:								
Taxes:								
Individual income tax.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate income tax.....	—	—	—	—	—	—	44,330	—
Sales and use tax.....	—	—	—	—	—	—	—	—
Gasoline tax.....	—	—	—	—	—	—	—	—
Insurance tax.....	—	—	—	—	—	—	—	—
Other taxes.....	—	—	—	—	—	—	—	—
Federal funds.....	—	—	—	—	—	—	—	—
Local funds.....	—	—	—	—	—	—	—	—
Investment earnings.....	37,545	6,490	4,695	4,465	3,570	2,179	8,431	8,371
Interest earnings on loans.....	—	—	—	—	—	—	—	—
Sales and services.....	1	—	—	—	—	—	—	—
Rental and lease of property.....	—	—	—	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	—	—
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—
Funds escheated.....	90,181	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	—	—	—	—	—
Total revenues.....	<u>127,727</u>	<u>6,490</u>	<u>4,695</u>	<u>4,465</u>	<u>3,570</u>	<u>2,179</u>	<u>52,761</u>	<u>8,371</u>
Expenditures:								
Current:								
General government.....	5,952	1,870	—	137	3,963	1,405	—	—
Primary and secondary education.....	—	—	—	—	163,519	—	42,849	—
Higher education.....	25,296	—	—	87,416	—	82,614	—	—
Health and human services.....	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—
Environment and natural resources.....	—	—	—	—	—	—	—	47,506
Public safety, corrections, and regulation.....	—	—	—	—	—	—	—	—
Agriculture.....	—	—	44,033	—	—	—	—	—
Bond issuance costs.....	—	—	—	—	—	257	—	—
Total expenditures.....	<u>31,248</u>	<u>1,870</u>	<u>44,033</u>	<u>87,553</u>	<u>167,482</u>	<u>84,276</u>	<u>42,849</u>	<u>47,506</u>
Excess revenues over (under) expenditures.....	<u>96,479</u>	<u>4,620</u>	<u>(39,338)</u>	<u>(83,088)</u>	<u>(163,912)</u>	<u>(82,097)</u>	<u>9,912</u>	<u>(39,135)</u>
Other Financing Sources (Uses):								
Bonds issued.....	—	—	—	—	—	559,400	—	—
Premium on debt issued.....	—	—	—	—	—	14,506	—	—
Sale of capital assets.....	—	—	—	—	—	—	—	—
Transfers in.....	—	11,954	11,954	—	—	—	—	19,200
Transfers out.....	—	(675)	(50,000)	(19,398)	(28,039)	(54,576)	(2,563)	(58)
Total other financing sources (uses).....	<u>—</u>	<u>11,279</u>	<u>(38,046)</u>	<u>(19,398)</u>	<u>(28,039)</u>	<u>519,330</u>	<u>(2,563)</u>	<u>19,142</u>
Net change in fund balances.....	<u>96,479</u>	<u>15,899</u>	<u>(77,384)</u>	<u>(102,486)</u>	<u>(191,951)</u>	<u>437,233</u>	<u>7,349</u>	<u>(19,993)</u>
Fund balances — July 1, as restated.....	306,243	85,625	85,595	136,056	249,707	5,891	69,366	121,446
Increase (decrease) in reserve for related assets.....	—	—	—	—	—	—	—	—
Fund balances — June 30.....	<u>\$ 402,722</u>	<u>\$ 101,524</u>	<u>\$ 8,211</u>	<u>\$ 33,570</u>	<u>\$ 57,756</u>	<u>\$ 443,124</u>	<u>\$ 76,715</u>	<u>\$ 101,453</u>

Prison Enterprises	Educational Materials and School Buses Fund	Employment Security Commission Funds	Natural Gas Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Clean Water Funds
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	17,250	—
—	—	—	—	—	—	—	—
—	—	115,919	—	1,751	63,770	—	57,595
—	1,381	8,827	—	957	—	—	—
—	—	—	3,981	92	—	1,149	11,776
—	—	—	—	—	—	31	15,503
67,811	8,777	—	—	1,182	—	—	1,534
—	—	—	—	2	—	—	—
—	1	2,166	6	774	—	8,988	—
—	—	2,788	—	1,253	—	—	—
—	—	—	—	—	—	—	—
433	—	1,103	—	92	—	—	—
<u>68,244</u>	<u>10,159</u>	<u>130,803</u>	<u>3,987</u>	<u>6,103</u>	<u>63,770</u>	<u>27,418</u>	<u>86,408</u>
—	—	—	396	—	—	—	85
—	41,463	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	144,957	53,622	—	66,213	—	19,542
—	—	—	—	—	—	45,561	134,926
62,199	—	—	—	137,048	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>62,199</u>	<u>41,463</u>	<u>144,957</u>	<u>54,018</u>	<u>137,048</u>	<u>66,213</u>	<u>45,561</u>	<u>154,553</u>
<u>6,045</u>	<u>(31,304)</u>	<u>(14,154)</u>	<u>(50,031)</u>	<u>(130,945)</u>	<u>(2,443)</u>	<u>(18,143)</u>	<u>(68,145)</u>
—	—	—	35,000	—	—	—	10,600
—	—	—	101	—	—	—	126
123	1,238	—	—	3,285	—	—	—
202	69,007	17,060	—	131,198	2,166	6,949	42,945
<u>(7,795)</u>	<u>(665)</u>	<u>(56)</u>	<u>(1,397)</u>	<u>(739)</u>	<u>(215)</u>	<u>(3,335)</u>	<u>(18,306)</u>
<u>(7,470)</u>	<u>69,580</u>	<u>17,004</u>	<u>33,704</u>	<u>133,744</u>	<u>1,951</u>	<u>3,614</u>	<u>35,365</u>
<u>(1,425)</u>	<u>38,276</u>	<u>2,850</u>	<u>(16,327)</u>	<u>2,799</u>	<u>(492)</u>	<u>(14,529)</u>	<u>(32,780)</u>
35,422	(23,925)	5,044	78,295	6,098	1,837	29,348	724,130
(1,150)	(1,706)	108	—	500	—	—	—
<u>\$ 32,847</u>	<u>\$ 12,645</u>	<u>\$ 8,002</u>	<u>\$ 61,968</u>	<u>\$ 9,397</u>	<u>\$ 1,345</u>	<u>\$ 14,819</u>	<u>\$ 691,350</u>

Continued

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

For the Fiscal Year Ended June 30, 2002

Exhibit C-4

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Departmental Funds	Total Nonmajor Special Revenue Funds
Revenues:				
Taxes:				
Individual income tax.....	\$ —	\$ —	\$ 454	\$ 454
Corporate income tax.....	—	—	10,000	54,330
Sales and use tax.....	12,900	—	—	12,900
Gasoline tax.....	1,522	—	7,841	26,613
Insurance tax.....	—	—	7,108	7,108
Other taxes.....	—	8,825	88,145	96,970
Federal funds.....	8,155	—	65,592	312,782
Local funds.....	188	—	1,085	12,438
Investment earnings.....	934	1,514	15,283	110,475
Interest earnings on loans.....	—	—	213	15,747
Sales and services.....	2,446	—	43,264	125,015
Rental and lease of property.....	24	—	1,584	1,610
Fees, licenses, and fines.....	18,341	2,373	94,101	126,750
Contributions, gifts, and grants.....	852	—	25,329	30,222
Funds escheated.....	—	—	—	90,181
Miscellaneous.....	84	—	13,333	15,045
Total revenues.....	<u>45,446</u>	<u>12,712</u>	<u>373,332</u>	<u>1,038,640</u>
Expenditures:				
Current:				
General government.....	—	—	53,985	67,793
Primary and secondary education.....	—	—	59,129	306,960
Higher education.....	—	—	27,912	223,238
Health and human services.....	—	—	65,258	65,258
Economic development.....	—	—	25,693	310,027
Environment and natural resources.....	44,641	11,480	88,970	373,084
Public safety, corrections, and regulation.....	—	—	61,597	260,844
Agriculture.....	—	—	5,128	49,161
Bond issuance costs.....	—	—	—	257
Total expenditures.....	<u>44,641</u>	<u>11,480</u>	<u>387,672</u>	<u>1,656,622</u>
Excess revenues over (under) expenditures.....	<u>805</u>	<u>1,232</u>	<u>(14,340)</u>	<u>(617,982)</u>
Other Financing Sources (Uses):				
Bonds issued.....	—	—	—	605,000
Premium on debt issued.....	—	—	—	14,733
Sale of capital assets.....	113	—	129	4,888
Transfers in.....	3,677	—	88,457	404,769
Transfers out.....	(1,348)	(3,000)	(142,870)	(335,035)
Total other financing sources (uses).....	<u>2,442</u>	<u>(3,000)</u>	<u>(54,284)</u>	<u>694,355</u>
Net change in fund balances.....	<u>3,247</u>	<u>(1,768)</u>	<u>(68,624)</u>	<u>76,373</u>
Fund balances — July 1, as restated.....	15,086	12,360	398,907	2,342,531
Increase (decrease) in reserve for related assets.....	507	—	(57)	(1,798)
Fund balances — June 30.....	<u>\$ 18,840</u>	<u>\$ 10,592</u>	<u>\$ 330,226</u>	<u>\$ 2,417,106</u>

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

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	Employment and Training				Clean Water Fund			
	Administration Fund			Variance with Final Budget	Clean Water Fund			Variance with Final Budget
	Budgeted Amounts		Actual		Budgeted Amounts			
Original	Final	Actual		Budget	Original	Final	Actual	Budget
Revenues:								
Departmental:								
Federal funds.....	\$ 29,176	\$ 108,810	\$ 63,707	\$ (45,103)	\$ —	\$ —	\$ —	\$ —
Local funds.....	133	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	—	—	—	—	—
Intra-governmental transactions.....	2,242	4,001	4,027	26	1,950	1,950	1,950	—
Sales and services.....	—	—	—	—	—	—	—	—
Sale, rental and lease of property.....	—	—	—	—	—	—	—	—
Fees, licenses and fines.....	—	—	—	—	—	—	—	—
Contributions, gifts and grants.....	—	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	—	—	716	572	(144)
Total revenues.....	<u>31,551</u>	<u>112,811</u>	<u>67,734</u>	<u>(45,077)</u>	<u>1,950</u>	<u>2,666</u>	<u>2,522</u>	<u>(144)</u>
Expenditures:								
Current:								
General government.....	—	—	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—
Environment and natural resources.....	—	—	—	—	—	—	—	—
Economic development.....	31,551	114,524	68,250	46,274	1,950	6,986	1,430	5,556
Public safety and corrections.....	—	—	—	—	—	—	—	—
Total expenditures.....	<u>31,551</u>	<u>114,524</u>	<u>68,250</u>	<u>46,274</u>	<u>1,950</u>	<u>6,986</u>	<u>1,430</u>	<u>5,556</u>
Excess revenues over (under) expenditures.....	<u>\$ —</u>	<u>\$ (1,713)</u>	<u>(516)</u>	<u>\$ 1,197</u>	<u>\$ —</u>	<u>\$ (4,320)</u>	<u>1,092</u>	<u>\$ 5,412</u>
Unreserved fund balances (budgetary basis) at July 1, 2001.....			1,804				12,180	
Restatements.....			—				(12,180)	
Unreserved fund balances (budgetary basis) at June 30, 2002.....			<u>\$ 1,288</u>				<u>\$ 1,092</u>	

Employment Security Commission Funds				Highway Patrol Fund			
<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
<i>Original</i>	<i>Final</i>			<i>Original</i>	<i>Final</i>		
\$ 118,008	\$ 118,314	\$ 114,748	\$ (3,566)	\$ —	\$ 2,445	\$ 1,751	\$ (694)
11,000	8,600	9,311	711	—	1,357	657	(700)
2,090	2,715	2,787	72	—	758	1,049	291
24,028	30,287	29,233	(1,054)	131,870	139,167	131,599	(7,568)
—	—	—	—	1,544	1,544	1,112	(432)
—	—	—	—	3,258	3,802	3,346	(456)
—	—	—	—	—	445	456	11
—	—	—	—	—	50	50	—
1,100	1,550	1,555	5	1	1	94	93
<u>156,226</u>	<u>161,466</u>	<u>157,634</u>	<u>(3,832)</u>	<u>136,673</u>	<u>149,569</u>	<u>140,114</u>	<u>(9,455)</u>
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
156,226	161,466	156,850	4,616	—	—	—	—
—	—	—	—	136,673	149,569	135,769	13,800
<u>156,226</u>	<u>161,466</u>	<u>156,850</u>	<u>4,616</u>	<u>136,673</u>	<u>149,569</u>	<u>135,769</u>	<u>13,800</u>
<u>\$ —</u>	<u>\$ —</u>	<u>784</u>	<u>\$ 784</u>	<u>\$ —</u>	<u>\$ —</u>	<u>4,345</u>	<u>\$ 4,345</u>
		2,400				3,693	
		<u>—</u>				<u>(2)</u>	
		<u>\$ 3,184</u>				<u>\$ 8,036</u>	

Continued

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

For the Fiscal Year Ended June 30, 2002

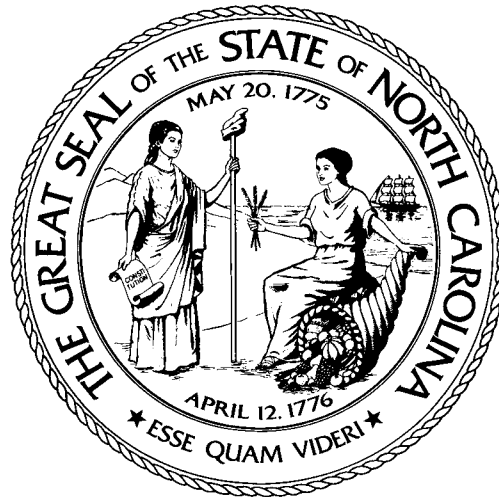
Exhibit C-5

(Dollars in Thousands)

	Wildlife Resources Commission Fund				Departmental Funds			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>			<u>Original</u>	<u>Final</u>		
Revenues:								
Departmental:								
Federal funds.....	\$ 5,458	\$ 8,383	\$ 8,362	\$ (21)	\$ 51,860	\$ 57,199	\$ 50,613	\$ (6,586)
Local funds.....	—	152	188	36	20	339	19	(320)
Inter-agency grants and allocations.....	260	334	391	57	6,680	9,758	8,842	(916)
Intra-governmental transactions.....	32,900	39,677	40,224	547	66,184	82,533	67,779	(14,754)
Sales and services.....	1,390	1,562	2,410	848	2,926	3,652	3,472	(180)
Sale, rental and lease of property.....	106	232	137	(95)	86	87	106	19
Fees, licenses and fines.....	16,459	17,289	18,410	1,121	78,189	82,514	81,060	(1,454)
Contributions, gifts and grants.....	30	57	58	1	4	324	640	316
Miscellaneous.....	115	91	776	685	1,395	1,631	1,840	209
Total revenues.....	<u>56,718</u>	<u>67,777</u>	<u>70,956</u>	<u>3,179</u>	<u>207,344</u>	<u>238,037</u>	<u>214,371</u>	<u>(23,666)</u>
Expenditures:								
Current:								
General government.....	—	—	—	—	100,445	108,010	89,064	18,946
Health and human services.....	—	—	—	—	24,204	32,061	31,697	364
Environment and natural resources.....	57,135	72,191	68,443	3,748	38,694	41,650	34,411	7,239
Economic development.....	—	—	—	—	29,242	33,075	28,026	5,049
Public safety and corrections.....	—	—	—	—	32,476	47,582	42,269	5,313
Total expenditures.....	<u>57,135</u>	<u>72,191</u>	<u>68,443</u>	<u>3,748</u>	<u>225,061</u>	<u>262,378</u>	<u>225,467</u>	<u>36,911</u>
Excess revenues over (under) expenditures.....	<u>\$ (417)</u>	<u>\$ (4,414)</u>	<u>2,513</u>	<u>\$ 6,927</u>	<u>\$ (17,717)</u>	<u>\$ (24,341)</u>	<u>(11,096)</u>	<u>\$ 13,245</u>
Unreserved fund balances (budgetary basis) at July 1, 2001.....			13,685				87,544	
Restatements.....			—				<u>12,182</u>	
Unreserved fund balances (budgetary basis) at June 30, 2002.....			<u>\$ 16,198</u>				<u>\$ 88,630</u>	

<i>Totals -</i>			
<i>Budgeted Special Revenue Funds</i>			
<i>Budgeted Amounts</i>			<i>Variance</i>
<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>with Final</i>
			<i>Budget</i>
\$ 204,502	\$ 295,151	\$ 239,181	\$ (55,970)
11,153	10,448	10,175	(273)
9,030	13,565	13,069	(496)
259,174	297,615	274,812	(22,803)
5,860	6,758	6,994	236
3,450	4,121	3,589	(532)
94,648	100,248	99,926	(322)
34	431	748	317
2,611	3,989	4,837	848
<u>590,462</u>	<u>732,326</u>	<u>653,331</u>	<u>(78,995)</u>
100,445	108,010	89,064	18,946
24,204	32,061	31,697	364
95,829	113,841	102,854	10,987
218,969	316,051	254,556	61,495
<u>169,149</u>	<u>197,151</u>	<u>178,038</u>	<u>19,113</u>
<u>608,596</u>	<u>767,114</u>	<u>656,209</u>	<u>110,905</u>
<u>\$ (18,134)</u>	<u>\$ (34,788)</u>	<u>(2,878)</u>	<u>\$ 31,910</u>
		121,306	
		<u>—</u>	
		<u>\$ 118,428</u>	

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NONMAJOR CAPITAL PROJECTS FUNDS

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

The following activities are included in the nonmajor 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

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS**

June 30, 2002

Exhibit C-6

(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	Total Nonmajor Capital Projects Funds
ASSETS					
Cash and cash equivalents	\$ 121,228	\$ 3	\$ 3,763	\$ 93	\$ 125,087
Receivables, net:					
Accounts receivable.....	276	—	—	—	276
Intergovernmental receivable.....	5,725	—	—	—	5,725
Interest receivable.....	—	—	5	—	5
Due from other funds	2,704	—	—	—	2,704
Total Assets.....	<u>\$ 129,933</u>	<u>\$ 3</u>	<u>\$ 3,768</u>	<u>\$ 93</u>	<u>\$ 133,797</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities					
Accounts payable.....	\$ 9,738	\$ —	\$ —	\$ —	\$ 9,738
Intergovernmental payable.....	159	—	—	—	159
Due to other funds	44	—	—	—	44
Total Liabilities.....	<u>9,941</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,941</u>
Fund Balances:					
Reserved for:					
Capital projects.....	50,044	—	—	61	50,105
Unreserved:					
Undesignated.....	69,948	3	3,768	32	73,751
Total Fund Balances.....	<u>119,992</u>	<u>3</u>	<u>3,768</u>	<u>93</u>	<u>123,856</u>
Total Liabilities and Fund Balances.....	<u>\$ 129,933</u>	<u>\$ 3</u>	<u>\$ 3,768</u>	<u>\$ 93</u>	<u>\$ 133,797</u>

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

For the Fiscal Year Ended June 30, 2002

Exhibit C-7

(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	Total Nonmajor Capital Projects Funds
Revenues:					
Federal funds.....	\$ 35,199	\$ —	\$ —	\$ —	\$ 35,199
Local funds.....	59	—	—	—	59
Investment earnings.....	—	—	112	—	112
Sales and services.....	1,138	—	—	—	1,138
Rental and lease of property.....	18	—	—	—	18
Contributions, gifts, and grants.....	25,869	—	—	—	25,869
Miscellaneous.....	2,313	—	—	—	2,313
Total revenues.....	<u>64,596</u>	<u>—</u>	<u>112</u>	<u>—</u>	<u>64,708</u>
Expenditures:					
Capital outlay.....	125,946	—	4	61	126,011
Total expenditures.....	<u>125,946</u>	<u>—</u>	<u>4</u>	<u>61</u>	<u>126,011</u>
Excess revenues over (under) expenditures.....	<u>(61,350)</u>	<u>—</u>	<u>108</u>	<u>(61)</u>	<u>(61,303)</u>
Other Financing Sources (Uses):					
Sale of capital assets.....	182	—	—	—	182
Transfers in.....	55,825	—	—	—	55,825
Transfers out.....	(5,709)	—	(1,898)	—	(7,607)
Total other financing sources (uses).....	<u>50,298</u>	<u>—</u>	<u>(1,898)</u>	<u>—</u>	<u>48,400</u>
Net change in fund balances.....	<u>(11,052)</u>	<u>—</u>	<u>(1,790)</u>	<u>(61)</u>	<u>(12,903)</u>
Fund balances — July 1, as restated (Note 16).....	131,044	3	5,558	154	136,759
Fund balances — June 30.....	<u>\$ 119,992</u>	<u>\$ 3</u>	<u>\$ 3,768</u>	<u>\$ 93</u>	<u>\$ 123,856</u>

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NONMAJOR PERMANENT FUNDS

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

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

June 30, 2002

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment	Departmental Funds	Total Nonmajor Permanent Funds
ASSETS			
Cash and cash equivalents	\$ 161	\$ 227	\$ 388
Receivables, net:			
Interest receivable.....	1	1	2
Securities lending collateral	19,509	184	19,693
Endowment investments.....	49,145	585	49,730
Total Assets.....	<u>\$ 68,816</u>	<u>\$ 997</u>	<u>\$ 69,813</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities			
Accounts payable.....	\$ 1	\$ —	\$ 1
Obligations under securities lending.....	19,509	184	19,693
Total Liabilities.....	<u>19,510</u>	<u>184</u>	<u>19,694</u>
Fund Balances:			
Reserved for:			
Reserved for specific			
Wildlife endowment.....	49,306	—	49,306
Loan and grant commitments.....	—	587	587
Unreserved:			
Undesignated.....	—	226	226
Total Fund Balances.....	<u>49,306</u>	<u>813</u>	<u>50,119</u>
Total Liabilities and Fund Balances.....	<u>\$ 68,816</u>	<u>\$ 997</u>	<u>\$ 69,813</u>

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

For the Fiscal Year Ended June 30, 2002

Exhibit C-9

(Dollars in Thousands)

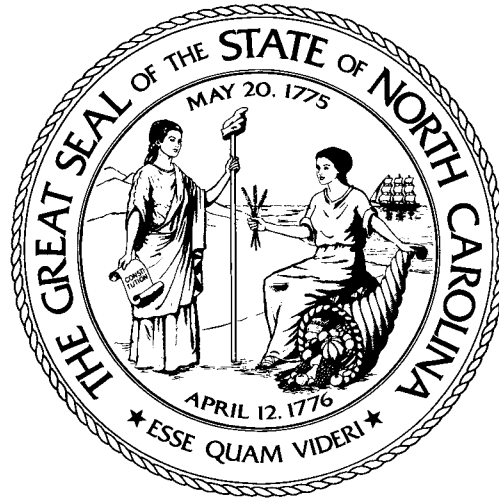
	Wildlife Endowment	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings.....	\$ 3,071	\$ 65	\$ 3,136
Sales and services.....	76	—	76
Fees, licenses, and fines.....	1,760	—	1,760
Contributions, gifts, and grants.....	5	—	5
Miscellaneous.....	178	—	178
Total revenues.....	<u>5,090</u>	<u>65</u>	<u>5,155</u>
Expenditures:			
Current:			
Higher education.....	—	55	55
Health and human services.....	—	4	4
Environment and natural resources.....	418	—	418
Total expenditures.....	<u>418</u>	<u>59</u>	<u>477</u>
Excess revenues over (under) expenditures.....	<u>4,672</u>	<u>6</u>	<u>4,678</u>
Other Financing Sources (Uses):			
Transfers out.....	<u>(2,151)</u>	—	<u>(2,151)</u>
Total other financing sources (uses).....	<u>(2,151)</u>	—	<u>(2,151)</u>
Net change in fund balances.....	<u>2,521</u>	<u>6</u>	<u>2,527</u>
Fund balances — July 1, as restated.....	<u>46,785</u>	<u>807</u>	<u>47,592</u>
Fund balances — June 30.....	<u>\$ 49,306</u>	<u>\$ 813</u>	<u>\$ 50,119</u>

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PROPRIETARY FUNDS

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NONMAJOR ENTERPRISE FUNDS

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services.

The following activities are included in the nonmajor enterprise funds:

- Public School Insurance
- Town of Butner Water and Sewer
- North Carolina State Fair
- USS North Carolina Battleship Commission
- Agricultural Farmers Market
- Workers' Compensation
- Departmental Enterprise Funds

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS**

June 30, 2002

Exhibit D-1

(Dollars in Thousands)

	Public School Insurance	Town of Butner Water and Sewer	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Departmental Funds	Total Nonmajor Enterprise Funds
ASSETS								
Current Assets:								
Cash and cash equivalents.....	\$ 7,358	\$ 3,706	\$ 7,352	\$ 1,124	\$ 1,101	\$ 10,140	\$ 1,288	\$ 32,069
Restricted cash and cash equivalents	—	—	—	724	—	—	—	724
Investments.....	16,839	—	—	—	—	10,861	—	27,700
Restricted investments.....	—	25	—	—	—	—	—	25
Securities lending collateral.....	12,365	2,927	—	—	—	10,818	—	26,110
Receivables:								
Accounts receivable, net.....	1	310	63	2	—	542	—	918
Interest receivable.....	25	15	—	—	—	33	—	73
Premiums receivable.....	1,016	—	—	—	—	—	—	1,016
Contributions receivable, net.....	—	—	—	113	—	—	—	113
Inventories.....	—	166	56	171	8	—	15	416
Prepaid items.....	2,431	—	—	88	—	—	—	2,519
Total current assets.....	<u>40,035</u>	<u>7,149</u>	<u>7,471</u>	<u>2,222</u>	<u>1,109</u>	<u>32,394</u>	<u>1,303</u>	<u>91,683</u>
Noncurrent Assets:								
Restricted/designated cash and cash equivalents.....	—	2,297	—	—	—	—	—	2,297
Investments.....	—	—	—	52	—	—	—	52
Restricted investments.....	—	5,690	—	2,421	—	—	—	8,111
Receivables:								
Contributions receivable, net.....	—	—	—	74	—	—	—	74
Deferred charges.....	—	129	—	—	—	—	—	129
Capital assets, net.....	—	20,206	9,626	2,957	7,835	—	1,734	42,358
Total noncurrent assets.....	<u>—</u>	<u>28,322</u>	<u>9,626</u>	<u>5,504</u>	<u>7,835</u>	<u>—</u>	<u>1,734</u>	<u>53,021</u>
Total Assets.....	<u>40,035</u>	<u>35,471</u>	<u>17,097</u>	<u>7,726</u>	<u>8,944</u>	<u>32,394</u>	<u>3,037</u>	<u>144,704</u>
LIABILITIES								
Current Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable.....	5	71	29	168	3	63	18	357
Accrued payroll.....	—	—	56	3	2	—	3	64
Claims payable.....	1,192	—	—	—	—	8,800	—	9,992
Obligations under securities lending..	12,365	2,927	—	—	—	10,818	—	26,110
Interest payable.....	—	25	—	—	—	—	—	25
Due to other funds.....	4	—	2	—	—	—	—	6
Deferred revenue.....	2,745	2	549	2	—	1,347	127	4,772
Deposits payable.....	—	78	—	63	—	—	—	141
Bonds payable - current.....	—	235	—	—	—	—	—	235
Accrued vacation leave - current.....	5	7	12	5	2	—	2	33
Total current liabilities.....	<u>16,316</u>	<u>3,345</u>	<u>648</u>	<u>241</u>	<u>7</u>	<u>21,028</u>	<u>150</u>	<u>41,735</u>
Noncurrent Liabilities:								
Bonds payable, net.....	—	9,570	—	—	—	—	—	9,570
Accrued vacation leave.....	29	95	85	46	44	—	35	334
Total noncurrent liabilities.....	<u>29</u>	<u>9,665</u>	<u>85</u>	<u>46</u>	<u>44</u>	<u>—</u>	<u>35</u>	<u>9,904</u>
Total Liabilities.....	<u>16,345</u>	<u>13,010</u>	<u>733</u>	<u>287</u>	<u>51</u>	<u>21,028</u>	<u>185</u>	<u>51,639</u>
NET ASSETS								
Invested in capital assets, net of related debt.....	—	16,115	9,626	2,957	7,835	—	1,734	38,267
Restricted for:								
Other purposes.....	—	1,069	—	3,250	—	—	—	4,319
Unrestricted.....	23,690	5,277	6,738	1,232	1,058	11,366	1,118	50,479
Total Net Assets.....	<u>\$ 23,690</u>	<u>\$22,461</u>	<u>\$ 16,364</u>	<u>\$ 7,439</u>	<u>\$ 8,893</u>	<u>\$ 11,366</u>	<u>\$ 2,852</u>	<u>\$ 93,065</u>

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

For the Fiscal Year Ended June 30, 2002

Exhibit D-2

(Dollars in Thousands)

	Public School Insurance	Town of Butner Water and Sewer	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Departmental Funds	Total Nonmajor Enterprise Funds
Operating Revenues:								
Sales and services, net.....	\$ —	\$ —	\$ 337	\$ 717	\$ 28	\$ —	\$ 139	\$ 1,221
Sales and services used as security for bonds, net.....	—	3,582	—	—	—	—	—	3,582
Rental and lease earnings.....	—	—	3,796	—	527	—	897	5,220
Fees, licenses and fines.....	—	17	4,739	1,504	493	—	811	7,564
Insurance premiums.....	7,652	—	—	—	—	2,194	—	9,846
Miscellaneous.....	—	3	—	41	—	—	—	44
Total operating revenues.....	<u>7,652</u>	<u>3,602</u>	<u>8,872</u>	<u>2,262</u>	<u>1,048</u>	<u>2,194</u>	<u>1,847</u>	<u>27,477</u>
Operating Expenses:								
Personal services.....	660	1,324	3,109	920	598	—	722	7,333
Supplies and materials.....	4	158	403	44	38	—	208	855
Services.....	81	574	2,668	699	216	587	582	5,407
Cost of goods sold.....	—	—	—	346	—	—	142	488
Depreciation/amortization.....	—	619	469	132	455	—	64	1,739
Claims.....	854	—	—	—	—	3,176	—	4,030
Insurance and bonding.....	2,839	6	119	17	33	471	33	3,518
Other.....	13	214	759	64	16	—	122	1,188
Total operating expenses.....	<u>4,451</u>	<u>2,895</u>	<u>7,527</u>	<u>2,222</u>	<u>1,356</u>	<u>4,234</u>	<u>1,873</u>	<u>24,558</u>
Operating income (loss).....	<u>3,201</u>	<u>707</u>	<u>1,345</u>	<u>40</u>	<u>(308)</u>	<u>(2,040)</u>	<u>(26)</u>	<u>2,919</u>
Nonoperating Revenues (Expenses):								
Noncapital gifts, net.....	—	—	80	—	5	—	94	179
Investment earnings (loss).....	2,219	434	—	(302)	—	1,778	—	4,129
Interest and fees on capital related debt....	—	(240)	—	—	—	—	—	(240)
Grants, aid and subsidies.....	—	—	(25)	—	—	—	—	(25)
Miscellaneous.....	(272)	(58)	7	(5)	5	(273)	1	(595)
Total nonoperating.....	<u>1,947</u>	<u>136</u>	<u>62</u>	<u>(307)</u>	<u>10</u>	<u>1,505</u>	<u>95</u>	<u>3,448</u>
Income (loss) before contributions and transfers.....	5,148	843	1,407	(267)	(298)	(535)	69	6,367
Capital contributions, net.....	—	1,068	—	53	—	—	—	1,121
Transfers in.....	—	—	—	—	40	976	185	1,201
Transfers out.....	—	(158)	(552)	—	(17)	(2,000)	(150)	(2,877)
Change in net assets.....	5,148	1,753	855	(214)	(275)	(1,559)	104	5,812
Net assets — July 1, as restated.....	18,542	20,708	15,509	7,653	9,168	12,925	2,748	87,253
Net assets — June 30.....	<u>\$ 23,690</u>	<u>\$ 22,461</u>	<u>\$ 16,364</u>	<u>\$ 7,439</u>	<u>\$ 8,893</u>	<u>\$ 11,366</u>	<u>\$ 2,852</u>	<u>\$ 93,065</u>

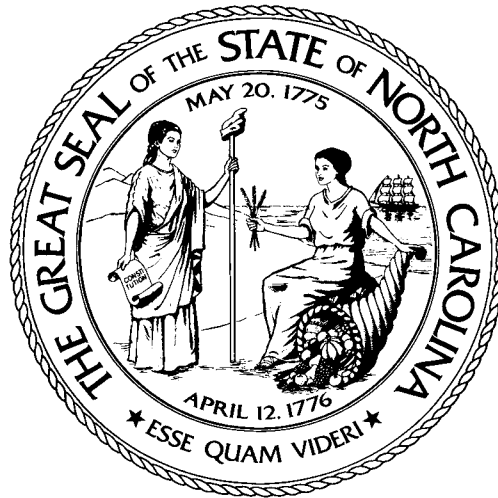
COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2002

Exhibit D-3

(Dollars in Thousands)

	Public School Insurance	Town of Butner Water and Sewer	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Departmental Funds	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities:								
Receipts from customers.....	\$ 8,073	\$ 3,136	\$ 8,479	\$ 2,551	\$ 1,048	\$ 2,304	\$ 1,883	\$ 27,474
Receipts from other funds.....	—	469	—	—	—	—	—	469
Payments to suppliers.....	(2,433)	(551)	(4,001)	(898)	(303)	(1,052)	(1,060)	(10,298)
Payments to employees.....	(663)	(1,325)	(3,072)	(916)	(598)	—	(714)	(7,288)
Payments for benefits and claims.....	(5,338)	—	—	—	—	(3,193)	—	(8,531)
Payments to other funds.....	—	(210)	—	—	—	—	—	(210)
Other receipts (payments).....	(5)	(190)	8	—	5	—	1	(181)
Net Cash Flows Provided (Used) by Operating Activities.....	(366)	1,329	1,414	737	152	(1,941)	110	1,435
Cash Provided From (Used For)								
Noncapital Financing Activities:								
Grants.....	—	—	(25)	—	—	—	—	(25)
Transfers from other funds.....	—	—	—	—	40	976	185	1,201
Transfers to other funds.....	—	(283)	(552)	—	(17)	(2,000)	(150)	(3,002)
Gifts.....	—	—	80	—	5	—	94	179
Total cash provided from (used for) noncapital financing activities.....	—	(283)	(497)	—	28	(1,024)	129	(1,647)
Cash Provided From (Used For)								
Capital Financing Activities:								
Acquisition and construction of capital assets.....	—	(4,460)	(65)	(1,050)	(24)	—	(66)	(5,665)
Capital contributions.....	—	1,068	—	53	—	—	—	1,121
Principal paid on capital debt.....	—	(100)	—	—	—	—	—	(100)
Interest paid on capital debt.....	—	(420)	—	—	—	—	—	(420)
Payment to bond escrow agent.....	—	(42)	—	—	—	—	—	(42)
Total cash provided from (used for) capital financing activities.....	—	(3,954)	(65)	(997)	(24)	—	(66)	(5,106)
Cash Provided From (Used For)								
Investment Activities:								
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	4,455	—	5,959	—	—	—	10,414
Purchase of non-State Treasurer investments.....	—	(194)	—	(4,552)	—	—	—	(4,746)
Investment earnings.....	426	373	—	(302)	—	592	—	1,089
Total cash provided from (used for) investment activities.....	426	4,634	—	1,105	—	592	—	6,757
Net increase (decrease) in cash and cash equivalents	60	1,726	852	845	156	(2,373)	173	1,439
Cash and cash equivalents at July 1.....	7,298	4,277	6,500	1,003	945	12,513	1,115	33,651
Cash and cash equivalents at June 30.....	\$ 7,358	\$ 6,003	\$ 7,352	\$ 1,848	\$ 1,101	\$ 10,140	\$ 1,288	\$ 35,090
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:								
Operating income (loss).....	\$ 3,201	\$ 707	\$ 1,345	\$ 40	\$ (308)	\$ (2,040)	\$ (26)	\$ 2,919
Adjustments to reconcile operating income to net cash flows from operating activities:								
Depreciation/amortization.....	—	619	469	132	455	—	64	1,739
Nonoperating miscellaneous income/expense.....	—	—	7	—	5	—	1	13
(Increases) decreases in assets:								
Receivables.....	46	1	45	291	—	17	5	405
Inventories.....	—	4	(1)	65	6	—	36	110
Prepaid items.....	524	—	—	7	—	—	—	531
Increases (decreases) in liabilities:								
Accounts payable and accrued liabilities.....	(4,511)	(3)	2	138	(8)	(12)	(6)	(4,400)
Due to other funds.....	—	—	(2)	—	—	—	—	(2)
Accrued vacation leave.....	—	(1)	(13)	3	2	—	6	(3)
Deferred revenue.....	374	2	(438)	(2)	—	94	30	60
Deposits payable.....	—	—	—	63	—	—	—	63
Total cash provided from (used for) operations.....	\$ (366)	\$ 1,329	\$ 1,414	\$ 737	\$ 152	\$ (1,941)	\$ 110	\$ 1,435
Noncash Investing, Capital, and Financing Activities:								
Noncash distributions from the State Treasurer								
Long-Term Investment Portfolio.....	\$ 1,187	\$ —	\$ —	\$ —	\$ —	\$ 766	\$ —	\$ 1,953
Assets acquired through the assumption of a liability..	12,365	2,927	—	—	—	10,818	—	26,110
Change in fair value of investments.....	332	—	—	534	—	161	—	1,027



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

State Property Fire Insurance Fund

Self-insurance fund for State agencies and certain component units

Central Governmental Services:

Department of Administration:

Motor Fleet Management
Courier Service
Temporary Solutions

Office of the Governor:

Centralized Computing Services
State Telecommunications Services

Department of Administration:

Administration of State and Federal Surplus Property

COMBINING STATEMENT OF NET ASSETS INTERNAL SERVICE FUNDS

June 30, 2002

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Courier Service	Temporary Solutions
ASSETS					
Current Assets:					
Cash and cash equivalents.....	\$ 1,254	\$ 15,434	\$ 14,573	\$ 6	\$ 1,761
Investments.....	—	21,033	—	—	—
Securities lending collateral.....	—	20,820	—	—	—
Receivables:					
Accounts receivable, net.....	620	—	2,807	264	530
Interest receivable.....	—	59	—	—	—
Premiums receivable.....	—	21	—	—	—
Due from fiduciary funds.....	—	—	—	—	—
Due from other funds.....	1,264	—	3,629	3	161
Due from component units.....	—	—	628	—	—
Inventories.....	—	—	156	—	—
Prepaid items.....	—	—	—	—	—
Total current assets.....	<u>3,138</u>	<u>57,367</u>	<u>21,793</u>	<u>273</u>	<u>2,452</u>
Noncurrent Assets:					
Receivables:					
Accounts receivable, net.....	—	—	—	—	—
Capital assets, net.....	—	—	58,701	—	6
Total noncurrent assets.....	<u>—</u>	<u>—</u>	<u>58,701</u>	<u>—</u>	<u>6</u>
Total Assets.....	<u>3,138</u>	<u>57,367</u>	<u>80,494</u>	<u>273</u>	<u>2,458</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	—	—	1,930	6	1
Accrued payroll.....	—	—	—	16	377
Claims payable.....	—	232	—	—	—
Obligations under securities lending.....	—	20,820	—	—	—
Due to other funds.....	—	266	492	655	4
Due to component units.....	—	601	—	—	—
Deferred revenue.....	—	2,540	—	—	—
Accrued vacation leave - current.....	—	13	10	1	3
Total current liabilities.....	<u>—</u>	<u>24,472</u>	<u>2,432</u>	<u>678</u>	<u>385</u>
Noncurrent Liabilities:					
Accrued vacation leave.....	—	100	86	63	17
Total noncurrent liabilities.....	<u>—</u>	<u>100</u>	<u>86</u>	<u>63</u>	<u>17</u>
Total Liabilities.....	<u>—</u>	<u>24,572</u>	<u>2,518</u>	<u>741</u>	<u>402</u>
NET ASSETS					
Invested in capital assets, net of related debt.....	—	—	58,701	—	6
Unrestricted.....	3,138	32,795	19,275	(468)	2,050
Total Net Assets.....	<u>\$ 3,138</u>	<u>\$ 32,795</u>	<u>\$ 77,976</u>	<u>\$ (468)</u>	<u>\$ 2,056</u>

Exhibit E-1

Centralized Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 25,871	\$ 1,763	\$ 2,710	\$ 63,372
—	—	—	21,033
—	—	—	20,820
8,861	11,012	32	24,126
—	—	—	59
—	—	—	21
1	7	—	8
6,159	5,201	611	17,028
421	582	—	1,631
121	—	1	278
6,908	—	—	6,908
<u>48,342</u>	<u>18,565</u>	<u>3,354</u>	<u>155,284</u>
1	—	—	1
<u>22,463</u>	<u>5,977</u>	<u>165</u>	<u>87,312</u>
<u>22,464</u>	<u>5,977</u>	<u>165</u>	<u>87,313</u>
<u>70,806</u>	<u>24,542</u>	<u>3,519</u>	<u>242,597</u>
473	279	117	2,806
41	34	1	469
—	—	—	232
—	—	—	20,820
1,938	336	1,018	4,709
—	—	—	601
—	—	—	2,540
111	52	11	201
<u>2,563</u>	<u>701</u>	<u>1,147</u>	<u>32,378</u>
<u>1,034</u>	<u>344</u>	<u>59</u>	<u>1,703</u>
<u>1,034</u>	<u>344</u>	<u>59</u>	<u>1,703</u>
<u>3,597</u>	<u>1,045</u>	<u>1,206</u>	<u>34,081</u>
22,463	5,977	165	87,312
44,746	17,520	2,148	121,204
<u>\$ 67,209</u>	<u>\$ 23,497</u>	<u>\$ 2,313</u>	<u>\$ 208,516</u>

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

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Courier Service	Temporary Solutions
Operating Revenues:					
Sales and services, net.....	\$ 26,105	\$ —	\$ 27,691	\$ 2,206	\$ 6,648
Rental and lease earnings.....	—	—	—	—	—
Insurance premiums.....	—	15,189	—	—	—
Miscellaneous.....	—	—	55	1	—
Total operating revenues.....	<u>26,105</u>	<u>15,189</u>	<u>27,746</u>	<u>2,207</u>	<u>6,648</u>
Operating Expenses:					
Personal services.....	—	1,364	1,883	1,539	6,478
Supplies and materials.....	—	5	7,110	41	4
Services.....	25,704	133	2,480	507	55
Cost of goods sold.....	—	—	1,087	—	—
Depreciation/amortization.....	—	—	17,344	1	2
Claims.....	—	1,032	—	—	—
Insurance and bonding.....	—	11,844	2,414	—	—
Other.....	—	76	20	7	31
Total operating expenses.....	<u>25,704</u>	<u>14,454</u>	<u>32,338</u>	<u>2,095</u>	<u>6,570</u>
Operating income (loss).....	<u>401</u>	<u>735</u>	<u>(4,592)</u>	<u>112</u>	<u>78</u>
Nonoperating Revenues (Expenses):					
Investment earnings.....	—	3,273	—	—	—
Insurance recoveries.....	—	—	365	—	—
Gain (loss) on sale of equipment.....	—	—	(426)	—	—
Miscellaneous.....	—	(420)	—	—	—
Total nonoperating revenues (expenses).....	<u>—</u>	<u>2,853</u>	<u>(61)</u>	<u>—</u>	<u>—</u>
Income (loss) before contributions.....					
and transfers.....	401	3,588	(4,653)	112	78
Capital contributions, net.....	—	—	7	—	—
Transfers in.....	—	—	—	—	—
Transfers out.....	—	(1,000)	(3,200)	—	—
Change in net assets.....	<u>401</u>	<u>2,588</u>	<u>(7,846)</u>	<u>112</u>	<u>78</u>
Net assets — July 1, as restated.....	2,737	30,207	85,822	(580)	1,978
Net assets — June 30.....	<u>\$ 3,138</u>	<u>\$ 32,795</u>	<u>\$ 77,976</u>	<u>\$ (468)</u>	<u>\$ 2,056</u>

Exhibit E-2

Centralized Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 79,786	\$ 70,997	\$ 1,610	\$ 215,043
1,245	—	—	1,245
—	—	—	15,189
—	214	20	290
<u>81,031</u>	<u>71,211</u>	<u>1,630</u>	<u>231,767</u>
17,809	9,067	1,107	39,247
548	235	117	8,060
13,746	53,330	618	96,573
341	—	—	1,428
8,501	2,093	55	27,996
—	—	—	1,032
142	48	19	14,467
23,032	8,339	12	31,517
<u>64,119</u>	<u>73,112</u>	<u>1,928</u>	<u>220,320</u>
<u>16,912</u>	<u>(1,901)</u>	<u>(298)</u>	<u>11,447</u>
—	—	—	3,273
—	—	—	365
338	—	—	(88)
2	15	—	(403)
<u>340</u>	<u>15</u>	<u>—</u>	<u>3,147</u>
17,252	(1,886)	(298)	14,594
—	—	—	7
—	2,163	—	2,163
(5,935)	(7,961)	—	(18,096)
<u>11,317</u>	<u>(7,684)</u>	<u>(298)</u>	<u>(1,332)</u>
55,892	31,181	2,611	209,848
<u>\$ 67,209</u>	<u>\$ 23,497</u>	<u>\$ 2,313</u>	<u>\$ 208,516</u>

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Flows from Operating Activities:					
Receipts from customers.....	\$ 4,921	\$ 5,434	\$ 3,642	\$ 634	\$ —
Receipts from other funds.....	20,981	10,987	22,380	1,631	7,052
Payments to suppliers.....	(25,703)	(12,057)	(8,891)	(231)	(21)
Payments to employees.....	—	(1,358)	(1,883)	(1,533)	(6,690)
Payments for benefits and claims.....	—	(598)	—	—	—
Payments to other funds.....	—	(138)	(2,964)	(490)	(35)
Other receipts (payments).....	—	128	33	(5)	(31)
Net Cash Flows Provided (Used) by Operating Activities.....	<u>199</u>	<u>2,398</u>	<u>12,317</u>	<u>6</u>	<u>275</u>
Cash Provided From (Used For)					
Noncapital Financing Activities:					
Transfers from other funds.....	—	—	—	—	—
Transfers to other funds.....	—	(1,000)	(3,200)	—	—
Total cash provided from (used for) noncapital financing activities.....	<u>—</u>	<u>(1,000)</u>	<u>(3,200)</u>	<u>—</u>	<u>—</u>
Cash Provided From (Used For)					
Capital Financing Activities:					
Acquisition and construction of capital assets.....	—	—	(10,303)	—	—
Proceeds from the sale of capital assets.....	—	—	836	—	—
Insurance recoveries.....	—	—	365	—	—
Total cash provided from (used for) capital financing activities.....	<u>—</u>	<u>—</u>	<u>(9,102)</u>	<u>—</u>	<u>—</u>
Cash Provided From (Used For)					
Investment Activities:					
Redemptions from State Treasurer investment pool.....	—	3,000	—	—	—
Investment earnings.....	—	760	—	—	—
Total cash provided from (used for) investment activities.....	<u>—</u>	<u>3,760</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents.....	199	5,158	15	6	275
Cash and cash equivalents at July 1.....	1,055	10,276	14,558	—	1,486
Cash and cash equivalents at June 30.....	<u>\$ 1,254</u>	<u>\$ 15,434</u>	<u>\$ 14,573</u>	<u>\$ 6</u>	<u>\$ 1,761</u>
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss).....	\$ 401	\$ 735	\$ (4,592)	\$ 112	\$ 78
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization.....	—	—	17,344	1	2
Restatements and adjustments to cash.....	—	1,409	—	—	—
Nonoperating miscellaneous income/expense.....	—	—	—	—	—
(Increases) decreases in assets:					
Receivables.....	(40)	68	(814)	59	256
Due from other funds.....	(162)	—	(568)	1	147
Due from fiduciary funds.....	—	—	—	—	—
Due from component units.....	—	—	(289)	—	—
Inventories.....	—	—	(21)	—	—
Prepaid items.....	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	—	(40)	1,108	1	(210)
Due to other funds.....	—	(750)	148	(169)	3
Due to component units.....	—	(302)	—	—	—
Accrued vacation leave.....	—	113	1	1	(1)
Deferred revenue.....	—	1,165	—	—	—
Total cash provided from (used for) operations.....	<u>\$ 199</u>	<u>\$ 2,398</u>	<u>\$ 12,317</u>	<u>\$ 6</u>	<u>\$ 275</u>
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio.....	\$ —	\$ 1,517	\$ —	\$ —	\$ —
Change in construction in progress as a result of accrual					
Assets acquired through the assumption of a liability.....	—	20,820	—	—	—
Change in fair value of investments.....	—	418	—	—	—

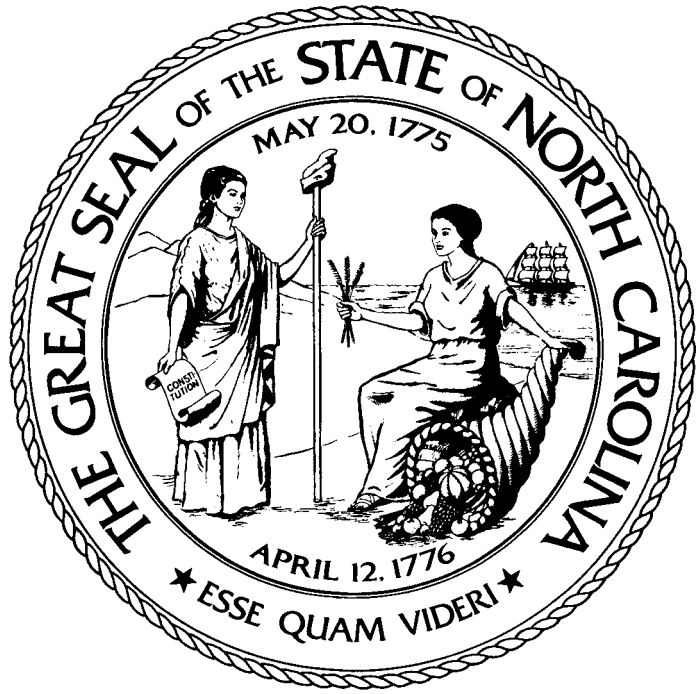
Exhibit E-3

Centralized Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 1,038	\$ 23,469	\$ 511	\$ 39,649
77,848	45,640	1,267	187,786
(27,875)	(60,348)	(335)	(135,461)
(17,942)	(9,152)	(1,114)	(39,672)
—	—	—	(598)
(8,470)	(1,619)	(1,869)	(15,585)
(325)	81	8	(111)
<u>24,274</u>	<u>(1,929)</u>	<u>(1,532)</u>	<u>36,008</u>
—	2,083	—	2,083
(5,855)	(7,961)	—	(18,016)
(5,855)	(5,878)	—	(15,933)
(5,072)	(2,570)	(15)	(17,960)
1	—	—	837
—	—	—	365
<u>(5,071)</u>	<u>(2,570)</u>	<u>(15)</u>	<u>(16,758)</u>
—	—	—	3,000
—	—	—	760
—	—	—	3,760
13,348	(10,377)	(1,547)	7,077
12,523	12,140	4,257	56,295
<u>\$ 25,871</u>	<u>\$ 1,763</u>	<u>\$ 2,710</u>	<u>\$ 63,372</u>

\$ 16,912	\$ (1,901)	\$ (298)	\$ 11,447
8,501	2,093	55	27,996
—	—	—	1,409
2	15	—	17
(453)	(2,157)	9	(3,072)
(1,310)	289	162	(1,441)
(1)	(7)	—	(8)
(380)	(14)	—	(683)
27	—	(1)	5
3,395	545	—	3,940
(996)	(753)	(373)	(1,263)
(1,313)	25	(1,081)	(3,137)
—	—	—	(302)
(110)	(64)	(5)	(65)
—	—	—	1,165
<u>\$ 24,274</u>	<u>\$ (1,929)</u>	<u>\$ (1,532)</u>	<u>\$ 36,008</u>

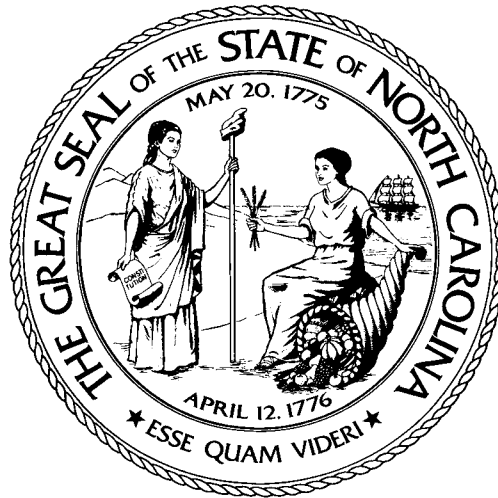
\$ —	\$ —	\$ —	\$ 1,517
—	—	—	20,820
—	—	—	418

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FIDUCIARY FUNDS

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FIDUCIARY FUNDS

Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and agency funds.

The following activities are included in the fiduciary funds:

Pension and Other Employee Benefits Trust Funds

These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, IRC Section 401(k) plan, IRC Section 457 plan, other defined contribution plans, death benefit plan, disability income plan, and health plan. Financial statements for individual pension plans and other employee benefit plans are presented in the notes to the financial statements (see page 114).

Investment Trust Fund

This fund accounts for the external portion of the Investment Pool sponsored by the Department of State Treasurer.

Private-purpose Trust Funds

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

Agency Funds

These funds account for sales tax collections held on behalf of local governments, resources held by the Administrative Office of the Courts for distribution to designated beneficiaries, the Investment Pool's securities lending assets and liabilities allocated to participating component units, and other resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS**

June 30, 2002

Exhibit F-1

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
ASSETS				
Cash and cash equivalents.....	\$ 314	\$ 95,435	\$ 308	\$ 96,057
Investments:				
U.S. Government securities.....	—	1,520	—	1,520
State and municipal securities.....	—	2,300	—	2,300
Certificates of deposit.....	—	63,977	—	63,977
Securities lending collateral.....	257	—	253	510
Receivables:				
Interest receivable.....	1	—	1	2
Sureties.....	557,883	—	—	557,883
Total Assets.....	<u>558,455</u>	<u>163,232</u>	<u>562</u>	<u>722,249</u>
Liabilities:				
Obligations under securities lending.....	257	—	253	510
Total Liabilities.....	<u>257</u>	<u>—</u>	<u>253</u>	<u>510</u>
Net Assets:				
Held in trust for:				
Individuals, organizations and other governments.....	558,198	163,232	309	721,739
Total Net Assets	<u>\$ 558,198</u>	<u>\$ 163,232</u>	<u>\$ 309</u>	<u>\$ 721,739</u>

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

For the Fiscal Year Ended June 30, 2002

Exhibit F-2

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Additions:				
Contributions:				
Trustee deposits.....	\$ 36,992	\$ 100,606	\$ 4	\$ 137,602
Total contributions.....	<u>36,992</u>	<u>100,606</u>	<u>4</u>	<u>137,602</u>
Investment Income:				
Investment earnings.....	20	3,165	22	3,207
Less investment expenses.....	(5)	—	(5)	(10)
Net investment income.....	<u>15</u>	<u>3,165</u>	<u>17</u>	<u>3,197</u>
Total additions.....	<u>37,007</u>	<u>103,771</u>	<u>21</u>	<u>140,799</u>
Deductions:				
Payments in accordance with trust arrangements.....	2,486	117,229	—	119,715
Other deductions.....	—	—	25	25
Total deductions.....	<u>2,486</u>	<u>117,229</u>	<u>25</u>	<u>119,740</u>
Change in net assets.....	34,521	(13,458)	(4)	21,059
Net assets — July 1, as restated.....	523,677	176,690	313	700,680
Net assets — June 30.....	<u>\$ 558,198</u>	<u>\$ 163,232</u>	<u>\$ 309</u>	<u>\$ 721,739</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2002

Exhibit F-3

(Dollars in Thousands)

	Balance, July 1, 2001	Additions	Deductions	Balance, June 30, 2002
Local Sales Tax Collections				
ASSETS				
Cash and cash equivalents.....	\$ 431,272	\$ 1,958,061	\$ 1,950,541	\$ 438,792
Receivables:				
Taxes receivable.....	110,942	15,970	—	126,912
Due from other funds.....	9,685	—	1,307	8,378
Total Assets.....	<u>\$ 551,899</u>	<u>\$ 1,974,031</u>	<u>\$ 1,951,848</u>	<u>\$ 574,082</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 551,899	\$ 22,183	\$ —	\$ 574,082
Total Liabilities.....	<u>\$ 551,899</u>	<u>\$ 22,183</u>	<u>\$ —</u>	<u>\$ 574,082</u>
Clerks of Court				
ASSETS				
Cash and cash equivalents.....	\$ 194,736	\$ 1,082,043	\$ 1,182,942	\$ 93,837
Investments:				
Certificates of deposit.....	67,549	—	67,549	—
Receivables:				
Accounts receivable.....	542	487	514	515
Due from other funds.....	314	4,239	4,258	295
Sureties.....	26,808	57,713	54,847	29,674
Total Assets.....	<u>\$ 289,949</u>	<u>\$ 1,144,482</u>	<u>\$ 1,310,110</u>	<u>\$ 124,321</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 5,660	\$ 110,710	\$ 111,332	\$ 5,038
Due to other funds.....	6,066	184,420	185,065	5,421
Funds held for others.....	278,223	409,249	573,610	113,862
Total Liabilities.....	<u>\$ 289,949</u>	<u>\$ 704,379</u>	<u>\$ 870,007</u>	<u>\$ 124,321</u>
Intra-Entity Investment Fund Deposits				
ASSETS				
Cash and cash equivalents.....	\$ 1,506,260	\$ 13,899	\$ —	\$ 1,520,159
Investments:				
State Treasurer investment pool.....	668,282	—	207,027	461,255
Securities lending collateral.....	1,175,464	244,764	—	1,420,228
Receivables:				
Interest receivable.....	6,367	—	326	6,041
Total Assets.....	<u>\$ 3,356,373</u>	<u>\$ 258,663</u>	<u>\$ 207,353</u>	<u>\$ 3,407,683</u>
LIABILITIES				
Obligations under securities lending.....	1,175,464	244,764	—	1,420,228
Funds held for others.....	2,180,909	—	193,454	1,987,455
Total Liabilities.....	<u>\$ 3,356,373</u>	<u>\$ 244,764</u>	<u>\$ 193,454</u>	<u>\$ 3,407,683</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

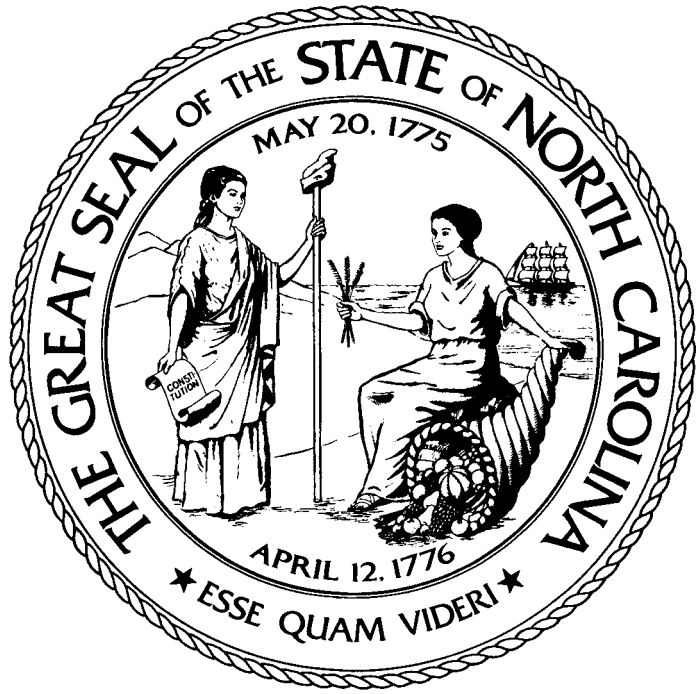
For the Fiscal Year Ended June 30, 2002

Exhibit F-3

(Dollars in Thousands)

	<u>Balance, July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2002</u>
Other Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 28,237	\$ 905,080	\$ 906,261	\$ 27,056
Investments:				
Certificates of deposit.....	530	—	68	462
Securities lending collateral.....	12,362	1,834	—	14,196
Receivables:				
Accounts receivable.....	149	—	132	17
Intergovernmental receivables.....	3,023	45	—	3,068
Interest receivable.....	2	—	—	2
Due from other funds.....	26	—	26	—
Inventories.....	301	—	—	301
Total Assets.....	<u>\$ 44,630</u>	<u>\$ 906,959</u>	<u>\$ 906,487</u>	<u>\$ 45,102</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 588	\$ 1,410	\$ 1,114	\$ 884
Intergovernmental payables.....	3,037	124,976	123,926	4,087
Obligations under securities lending.....	12,362	1,834	—	14,196
Due to other funds.....	293	339	381	251
Deposits payable.....	2,193	3,793	4,244	1,742
Funds held for others.....	26,157	23,569	25,784	23,942
Total Liabilities.....	<u>\$ 44,630</u>	<u>\$ 155,921</u>	<u>\$ 155,449</u>	<u>\$ 45,102</u>
Total Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 2,160,505	\$ 3,959,083	\$ 4,039,744	\$ 2,079,844
Investments:				
Certificates of deposit.....	68,079	—	67,617	462
State Treasurer investment pool.....	668,282	—	207,027	461,255
Securities lending collateral.....	1,187,826	246,598	—	1,434,424
Receivables:				
Taxes receivable.....	110,942	15,970	—	126,912
Accounts receivable.....	691	487	646	532
Intergovernmental receivables.....	3,023	45	—	3,068
Interest receivable.....	6,369	—	326	6,043
Due from other funds.....	10,025	4,239	5,591	8,673
Inventories.....	301	—	—	301
Sureties.....	26,808	57,713	54,847	29,674
Total Assets.....	<u>\$ 4,242,851</u>	<u>\$ 4,284,135</u>	<u>\$ 4,375,798</u>	<u>\$ 4,151,188</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 588	\$ 1,410	\$ 1,114	\$ 884
Intergovernmental payables.....	560,596	257,869	235,258	583,207
Obligations under securities lending.....	1,187,826	246,598	—	1,434,424
Due to other funds.....	6,359	184,759	185,446	5,672
Deposits payable.....	2,193	3,793	4,244	1,742
Funds held for others.....	2,485,289	432,818	792,848	2,125,259
Total Liabilities.....	<u>\$ 4,242,851</u>	<u>\$ 1,127,247</u>	<u>\$ 1,218,910</u>	<u>\$ 4,151,188</u>

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STATISTICAL SECTION

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

(Dollars in Thousands)

		<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenues — By Source						
Taxes.....	[2]	\$ 14,894,796	\$ 15,147,177	\$ 14,569,104	\$ 13,817,577	\$ 13,287,609
Federal funds.....		8,459,344	7,924,893	7,253,282	6,297,196	5,983,003
Local funds.....		702,076	760,607	511,350	469,539	462,879
Investment earnings.....	[1] [4]	335,082	487,824	500,854	529,028	575,901
Interest earnings on loans.....		47,421	5,789	5,356	6,665	5,676
Sales and services.....		194,548	97,686	94,751	92,237	84,087
Sale, rental and lease of property.....		24,359	43,046	25,059	26,913	26,321
Fees, licenses and fines.....		864,912	896,435	1,046,042	895,892	826,491
Tobacco settlement.....		175,836	140,272	—	—	—
Contributions, gifts and grants.....		93,802	122,871	79,554	71,787	61,189
Funds escheated.....		90,181	N/A	N/A	N/A	N/A
Miscellaneous.....		145,887	165,349	147,816	172,103	148,794
Total revenues.....	[5]	<u>\$ 26,028,244</u>	<u>\$ 25,791,949</u>	<u>\$ 24,233,168</u>	<u>\$ 22,378,937</u>	<u>\$ 21,461,950</u>

Expenditures — By Function						
Current:						
General government.....	[1]	\$ 809,398	\$ 1,035,440	\$ 1,229,513	\$ 1,039,855	\$ 1,115,763
Education.....	[1],[6]	N/A	6,964,812	6,674,757	6,253,838	5,416,486
Primary and secondary education.....	[6]	6,802,662	N/A	N/A	N/A	N/A
Higher education.....	[6]	2,519,624	N/A	N/A	N/A	N/A
Health and human services.....	[1] [3]	10,398,386	9,617,423	8,411,025	7,665,461	7,300,262
Economic development.....	[1]	498,644	453,931	428,819	370,124	321,613
Environment and natural resources.....	[1] [3]	574,871	459,170	371,238	354,025	332,803
Public safety, corrections, and regulation.....	[1]	2,070,166	1,948,423	1,999,894	1,670,703	1,578,985
Transportation.....	[1]	2,992,187	2,820,290	2,598,605	2,508,886	2,384,455
Agriculture.....	[1]	122,337	88,623	143,936	72,562	68,573
Retiree tax judgements.....		—	58,679	440,000	399,000	400,000
Capital outlay.....		126,011	155,228	159,241	182,793	203,605
Debt service.....		328,712	281,463	264,877	227,630	170,039
Total expenditures.....	[5]	<u>\$ 27,242,998</u>	<u>\$ 23,883,482</u>	<u>\$ 22,721,905</u>	<u>\$ 20,744,877</u>	<u>\$ 19,292,584</u>

All governmental fund types consist of the General Fund, special revenue funds, and capital projects funds. For fiscal year 2002 permanent funds are also included.

Major Revenues by Source
1993 - 2002

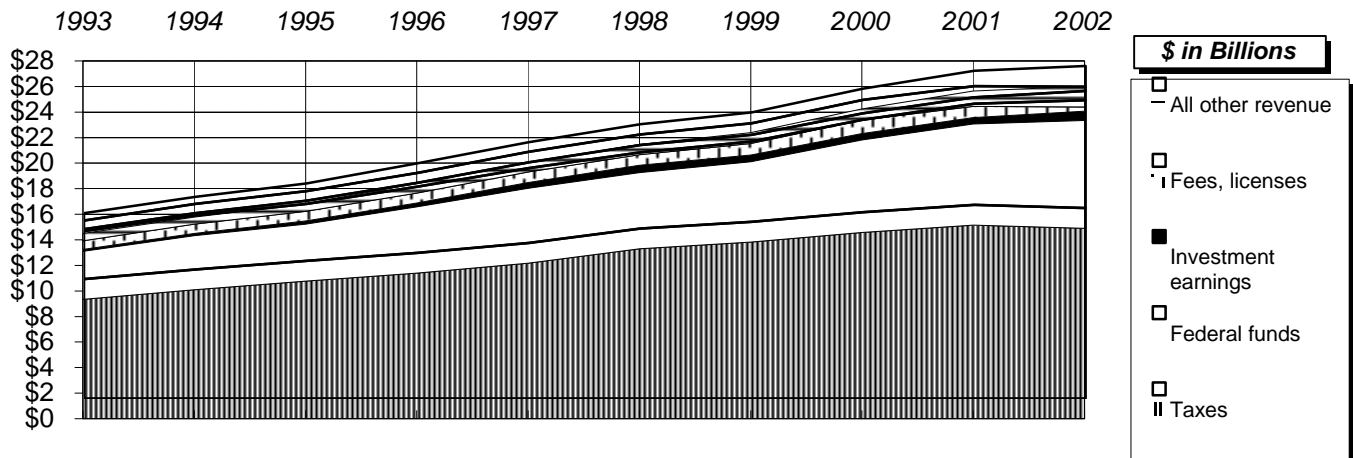


Table 1

1997	1996	1995	1994	1993
\$ 12,177,605	\$ 11,390,198	\$ 10,773,352	\$ 10,084,671	\$ 9,347,575
5,857,680	5,192,921	4,458,959	4,243,091	3,757,961
427,306	469,023	325,613	299,297	269,545
454,678	290,536	245,388	183,574	145,771
4,280	1,361	121	38	—
76,130	82,511	46,686	74,210	32,195
24,738	23,641	13,888	9,396	7,467
814,690	793,622	749,277	713,941	662,007
—	—	—	—	—
31,805	21,512	38,012	28,135	155,488
N/A	N/A	N/A	N/A	N/A
182,247	141,647	169,276	141,421	118,755
<u>\$ 20,051,159</u>	<u>\$ 18,406,972</u>	<u>\$ 16,820,572</u>	<u>\$ 15,777,774</u>	<u>\$ 14,496,764</u>
\$ 921,406	\$ 769,518	\$ 787,164	\$ 735,973	\$ 825,507
4,775,741	4,499,257	4,441,966	4,144,633	4,429,381
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
6,822,624	6,244,976	5,211,388	4,519,194	4,090,775
294,787	261,340	273,101	261,623	261,142
668,402	576,272	591,007	538,574	458,041
1,613,757	1,331,964	1,209,576	1,099,081	973,708
2,205,494	1,908,076	1,871,233	1,724,551	1,569,932
65,421	63,174	62,257	59,552	59,997
—	—	—	—	—
147,194	173,118	167,249	127,275	77,528
131,249	150,471	141,031	123,376	124,314
<u>\$ 17,646,075</u>	<u>\$ 15,978,166</u>	<u>\$ 14,755,972</u>	<u>\$ 13,333,832</u>	<u>\$ 12,870,325</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*.

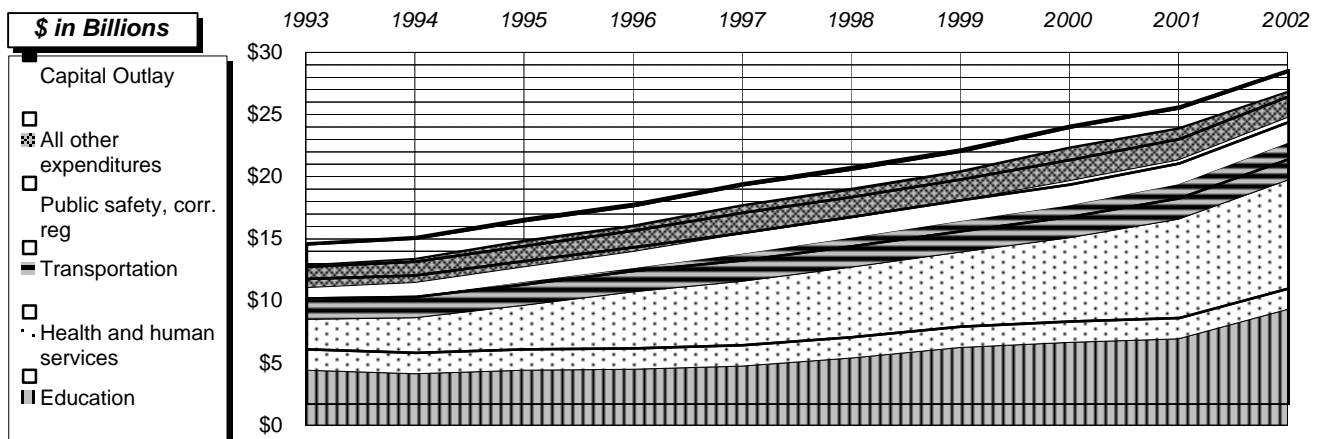
[3] In fiscal years prior to 1998, health expenditures were included in the environment, health and natural resources expenditure function. In the 1998 fiscal year, health expenditures were shifted and are now reflected in the health and human services function.

[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*.

[5] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for Nonexchange Transactions*. This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

[6] Fiscal years prior to 2002 do not reflect the implementation of GASB - Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (as amended by Statement No. 37). This statement establishes new financial reporting requirements for state and local governments throughout the United States.

Major Expenditures by Function 1993 - 2002



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

(Dollars in Thousands)

		2002	2001	2000	1999	1998
TAX REVENUES						
Individual income tax.....	[2]	\$ 7,219,794	\$ 7,605,542	\$ 7,097,514	\$ 6,586,153	\$ 6,124,709
Corporate income tax.....	[2]	548,046	712,161	989,280	920,583	999,759
Sales and use tax.....	[2]	3,766,285	3,429,532	3,361,189	3,342,157	3,272,774
Franchise tax.....		592,259	746,687	557,544	567,497	567,869
Beverage tax.....		200,593	198,646	193,003	182,970	155,352
Insurance tax.....		340,785	305,791	273,367	291,202	283,828
Piped natural gas.....		64,852	64,854	52,025	—	—
Intangible tax.....		—	4	20	31	217
Inheritance tax.....		104,799	123,094	162,997	163,608	144,203
Soft drink tax.....		2	48	144	11,463	22,338
Tobacco products tax.....		41,500	42,137	43,104	44,694	47,304
License tax.....		44,432	43,874	42,595	27,202	38,209
Real estate conveyance tax.....		—	—	—	1,215	894
Gift tax.....		13,392	20,254	25,084	19,243	20,722
Other taxes.....		17,479	11,152	10,292	10,973	1,501
Total tax revenues.....		12,954,218	13,303,776	12,808,158	12,168,991	11,679,679
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues.....		7,266,016	6,777,503	6,156,189	5,361,839	5,174,406
Local Funds:						
Departmental revenues.....		682,310	737,063	482,387	436,609	436,347
Investment Earnings:						
Income from General Fund investments.....	[3]	129,924	163,479	204,083	248,657	252,162
Income from securities lending.....	[1]	44,659	111,490	112,011	112,531	136,955
Railroad dividends.....		—	—	—	—	—
Departmental revenues.....		4,196	10,022	7,300	4,416	58,415
Other investment earnings.....		9,531	320	251	81	137
		188,310	285,311	323,645	365,685	447,669
Interest earnings on loans						
Interest earnings on loans.....		21	<i>Change in reporting. Previously reported as part of Investment Earnings-Departmental revenues.</i>			
Sales and Services:						
Departmental revenues.....		61,031	68,736	69,793	70,036	67,214
Other non-tax revenues.....		228	405	276	350	319
		61,259	69,141	70,069	70,386	67,533
Rental and Lease of Property:						
Proceeds from rental and lease of property.....		546	573	1,035	786	1,811
Departmental revenues.....		6,556	16,989	7,218	5,773	4,255
		7,102	17,562	8,253	6,559	6,066
Fees, Licenses and Fines:						
Court fines and fees.....		109,575	111,012	97,808	99,986	93,252
Secretary of State service fees.....		31,357	29,584	24,255	20,099	19,257
Banking and investment fees.....		4,336	10,914	4,029	4,332	3,031
Self insurer fees (Industrial Commission).....		6,795	7,098	6,360	4,128	3,556
Gasoline and oil inspection fees.....		—	—	—	—	—
Environment and Natural Resources - use fees.....		—	—	—	—	—
Probation supervision fees.....		10,833	10,453	10,605	11,166	11,778
Elections filing fees.....		346	14	313	23	276
Department of Insurance fees.....		22,854	20,210	18,433	18,205	1,096
DWI service and restoration fees.....		5,822	5,706	5,703	5,936	6,050
Departmental revenues.....		41,540	40,422	38,300	110,664	103,296
Other non-tax revenues.....		3,778	4,051	3,868	2,629	3,082
		237,236	239,464	209,674	277,168	244,674
Tobacco settlement						
Tobacco settlement.....		175,836	140,272	—	—	—
Contributions, Gifts and Grants:						
Departmental revenues.....		33,658	53,425	15,452	17,511	13,205
Other non-tax revenues.....		30	—	2	101	1
		33,688	53,425	15,454	17,612	13,206
Miscellaneous:						
Local sales and use tax administration.....		11,774	11,568	10,973	10,293	10,060
Sales tax refunds.....		11,120	11,494	15,514	10,406	10,936
Departmental revenues.....		89,489	123,230	108,555	130,518	115,529
Other non-tax revenue.....		6,307	914	866	844	744
		118,690	147,206	135,908	152,061	137,269
Total non-tax revenues.....		8,770,468	8,466,947	7,401,579	6,687,919	6,527,170
Total Revenues.....	[4]	\$ 21,724,686	\$ 21,770,723	\$ 20,209,737	\$ 18,856,910	\$ 18,206,849

Table 2

1997	1996	1995	1994	1993
\$ 5,454,571	\$ 4,975,387	\$ 4,617,197	\$ 4,289,162	\$ 3,992,538
869,717	878,028	833,135	737,125	710,665
3,134,877	2,947,537	2,701,114	2,585,642	2,363,745
534,622	495,008	457,952	438,779	423,623
151,064	138,653	170,033	161,578	159,049
259,286	242,188	235,455	219,847	211,110
—	—	—	—	—
—	11,509	128,608	127,088	120,599
132,195	113,416	109,883	106,530	89,626
30,980	39,619	36,176	38,124	35,087
46,797	46,394	44,936	39,700	43,373
41,280	44,962	53,431	50,975	27,641
1,064	19,510	16,349	18,046	15,742
12,566	11,043	8,592	13,150	13,555
1,516	1,388	1,421	955	856
<u>10,670,535</u>	<u>9,964,642</u>	<u>9,414,282</u>	<u>8,826,701</u>	<u>8,207,209</u>
5,169,286	4,613,915	3,780,032	3,595,033	3,206,169
403,145	445,443	299,156	270,873	237,329
224,260	202,277	163,783	121,776	77,911
105,722	—	—	—	—
—	—	96	96	96
10,257	11,070	7,923	7,214	11,080
241	249	221	70	61
<u>340,480</u>	<u>213,596</u>	<u>172,023</u>	<u>129,156</u>	<u>89,148</u>
58,744	63,345	24,414	44,503	2,276
—	—	—	—	—
<u>58,744</u>	<u>63,345</u>	<u>24,414</u>	<u>44,503</u>	<u>2,276</u>
1,342	1,265	499	7	190
4,651	4,404	7,288	6,880	6,671
<u>5,993</u>	<u>5,669</u>	<u>7,787</u>	<u>6,887</u>	<u>6,861</u>
99,819	90,456	88,023	81,529	76,601
17,344	14,838	12,911	11,209	9,720
3,337	3,432	3,760	3,513	3,234
3,460	3,038	2,768	2,785	2,894
—	—	—	1,251	1,176
—	—	—	—	—
10,859	10,002	9,690	8,604	8,770
19	287	17	252	13
6,001	961	936	14,834	11,173
5,949	5,426	5,342	4,818	4,597
104,002	101,364	106,360	99,502	109,902
4,056	5,005	5,415	7,265	4,002
<u>254,846</u>	<u>234,809</u>	<u>235,222</u>	<u>235,562</u>	<u>232,082</u>
—	—	—	—	—
14,145	8,574	4,065	3,319	129,430
—	—	—	—	—
<u>14,145</u>	<u>8,574</u>	<u>4,065</u>	<u>3,319</u>	<u>129,430</u>
9,178	8,661	6,669	5,623	5,920
13,301	11,585	14,217	12,166	10,811
151,906	112,430	129,224	104,072	75,074
455	471	1,534	598	1,313
<u>174,840</u>	<u>133,147</u>	<u>151,644</u>	<u>122,459</u>	<u>93,118</u>
<u>6,421,479</u>	<u>5,718,498</u>	<u>4,674,343</u>	<u>4,407,792</u>	<u>3,996,413</u>
<u>\$ 17,092,014</u>	<u>\$ 15,683,140</u>	<u>\$ 14,088,625</u>	<u>\$ 13,234,493</u>	<u>\$ 12,203,622</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*.

[4] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for Nonexchange Transactions*. This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

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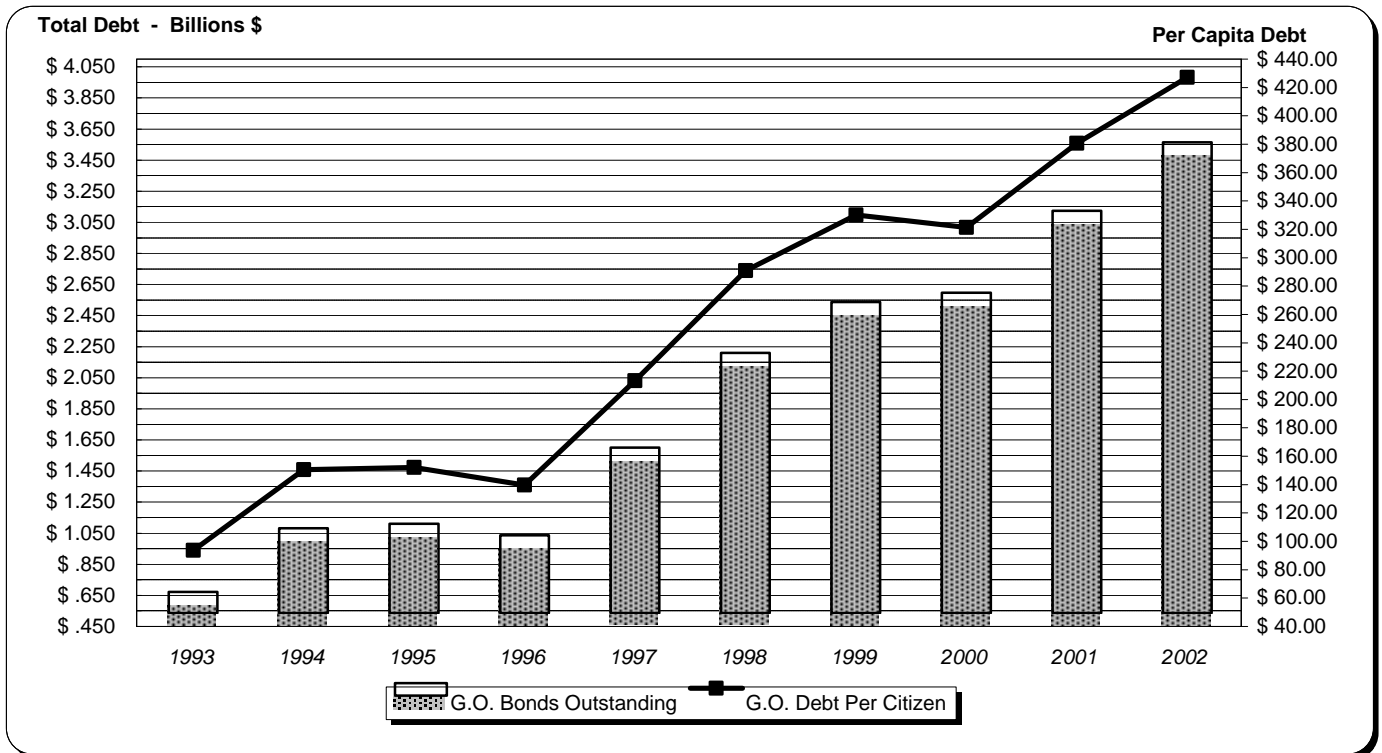
GENERAL OBLIGATION BONDS DEBT RATIOS

For the Fiscal Years 1993-2002

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 Expenditures	Total General Expenditures	Ratio
2002	8,325,435 [1]	\$ 3,477,953,000	\$ 417.75	\$ 328,712,000	\$ 27,242,998,000	1.21%
2001	8,186,268	\$ 3,038,693,000	\$ 371.19	\$ 281,463,000	\$ 23,883,482,000	1.18%
2000	8,049,313	\$ 2,509,986,000	\$ 311.83	\$ 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%

Total General Obligation Debt and Long-Term Debt Per Capita



[1] Since the 2002 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2002 amount.

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 1993-2002

(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	
<u>PRIMARY GOVERNMENT:</u>							
<u>General Long-Term Obligations Debt</u>							
2002	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
2001	—	—	—	—	—	—	—
2000	—	—	—	—	—	—	—
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—
1994	—	—	—	—	—	—	—
1993	371	—	371	750	72	822	.45
<u>Enterprise Funds</u>							
2002	\$ 4,005	\$ 2,276	\$ 1,729	\$ 100	\$ 431	\$ 531	3.26
2001	3,813	2,427	1,386	—	47	47	29.49
2000	—	—	—	—	—	—	—
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
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

[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.

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>							
2002	\$ 295,751	\$ 17,301	\$278,450	\$ 17,902	\$114,070	\$ 131,972	2.11
2001	253,162	18,537	234,625	16,962	122,348	139,310	1.68
2000	193,365	15,755	177,610	17,025	96,605	113,630	1.56
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
<u>University Funds</u>							
2002	\$1,712,116	\$ 1,453,645	\$258,471	\$ 48,330	\$ 55,042	\$ 103,372	2.50
2001	1,563,249	1,305,655	257,594	44,733	48,875	93,608	2.75
2000	1,127,769	943,685	184,084	36,975	45,821	82,796	2.22
1999	1,201,023	1,000,455	200,568	30,268	47,663	77,931	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

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2002

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>							
	Total General Obligation Bonds	<i>Total General Fund</i>	Capital	Prison and	Prison and	Capital	Clean	Clean
			Improve-	Youth	Youth	Improve-	Water	Water
			ment	Services	Services	ment	Series	Series
Series 1989	Facilities	Facilities	Series 1994A	1994A	1995A	1995A	1995A	
5-1-89	Series B	Series C	2-1-94	10-1-94	6-1-95	6-1-95	6-1-95	
6.5 - 6.9%	10-1-93	10-15-93	4.6 - 4.75%	5.7 - 5.8%	5.0 - 5.25%	5.0 - 5.25%	5.0 - 5.25%	
[*]								
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law	\$ 20,499	\$ 20,499	\$ 20,499	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 935, 1989 session law..	87,500	87,500	—	87,500	—	—	—	—
Ch. 542, 1993 session law..	695,000	695,000	—	—	—	400,000	40,000	60,000
Ch. 631, 1995 session law..	1,800,000	1,800,000	—	—	—	—	—	—
General Statute Ch. 142.....	93,380	93,380	—	—	67,475	—	—	—
Ch. 590, 1995 session law..	250,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law..	499,506	499,506	—	—	—	—	—	—
Ch. 3, 2000 session law.....	550,000	550,000	—	—	—	—	—	—
Total bonds authorized and issued.....	3,995,885	3,745,885	20,499	87,500	67,475	400,000	40,000	60,000
Amortization.....	(797)	(797)	—	—	—	—	—	—
Accretion.....	13,520	13,520	13,520	—	—	—	—	—
Bonds retired.....	506,655	439,955	23,720	39,000	5,305	99,500	12,000	15,000
Partial defeasances.....	24,000	24,000	—	—	—	—	24,000	—
Bonds outstanding— June 30, 2002.....	<u>\$ 3,477,953</u>	<u>\$ 3,294,653</u>	<u>\$ 10,299</u>	<u>\$ 48,500</u>	<u>\$ 62,170</u>	<u>\$ 300,500</u>	<u>\$ 4,000</u>	<u>\$ 45,000</u>
Bond Maturity As Follows:								
2002-03.....	207,720	191,045	1,786	8,800	9,500	28,000	2,000	3,000
2003-04.....	207,408	190,733	1,669	8,800	9,390	28,000	2,000	3,000
2004-05.....	207,400	190,725	1,561	8,800	9,285	28,000	—	3,000
2005-06.....	206,853	190,178	1,456	8,800	9,175	28,000	—	3,000
2006-07.....	206,344	189,669	1,361	8,800	9,060	28,000	—	3,000
2007-08.....	206,242	189,567	1,275	4,500	8,940	28,000	—	3,000
2008-09.....	205,692	189,017	1,191	—	6,820	28,000	—	3,000
2009-10.....	204,839	188,164	—	—	—	28,000	—	3,000
2010-11.....	204,505	187,830	—	—	—	28,000	—	3,000
2011-12.....	204,175	187,500	—	—	—	28,000	—	3,000
2012-13.....	204,030	187,480	—	—	—	20,500	—	3,000
2013-14.....	187,465	187,465	—	—	—	—	—	3,000
2014-15.....	187,450	187,450	—	—	—	—	—	3,000
2015-16.....	187,430	187,430	—	—	—	—	—	3,000
2016-17.....	187,500	187,500	—	—	—	—	—	3,000
2017-18.....	187,500	187,500	—	—	—	—	—	—
2018-19.....	181,400	181,400	—	—	—	—	—	—
2019-20.....	75,000	75,000	—	—	—	—	—	—
2020-21.....	19,000	19,000	—	—	—	—	—	—
Total Bonds Outstanding....	<u>\$ 3,477,953</u>	<u>\$ 3,294,653</u>	<u>\$ 10,299</u>	<u>\$ 48,500</u>	<u>\$ 62,170</u>	<u>\$ 300,500</u>	<u>\$ 4,000</u>	<u>\$ 45,000</u>

[*] Capital
Appreciation
Bonds

Table 5

Payable from General Fund Revenues

Capital Improvement Series 1997 1-1-97 4.8-5.1%	Public School Building Series 1997A 3-1-97 5.1-5.2%	Public School Building Series 1998A 4-1-98 4.75-5.0%	Public School Building Series 1999 4-1-99 4.5-5.0%	Clean Water Refunding Series 1999 4-1-99 2.9-5.0%	Public Improvement Series 1999A 9-1-99 5.0-5.4%	Public Improvement Series 1999B 9-1-99 6.7-6.75%	Public Improvement Series 1999C 10-1-99 4.5-4.7%	Public Improvement Series 2000A 9-1-00 5.0-5.1%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
195,000	—	—	—	—	—	—	—	—
—	450,000	450,000	450,000	—	—	—	—	295,000
—	—	—	—	25,905	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	177,400	20,000	2,600	5,000
—	—	—	—	—	—	—	—	—
195,000	450,000	450,000	450,000	25,905	177,400	20,000	2,600	300,000
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
33,000	45,500	64,000	55,500	980	12,000	5,700	750	12,000
—	—	—	—	—	—	—	—	—
<u>\$ 162,000</u>	<u>\$ 404,500</u>	<u>\$ 386,000</u>	<u>\$ 394,500</u>	<u>\$ 24,925</u>	<u>\$ 165,400</u>	<u>\$ 14,300</u>	<u>\$ 1,850</u>	<u>\$ 288,000</u>
12,000	26,500	16,000	18,500	170	6,000	2,850	375	12,000
12,000	26,500	16,000	18,500	180	6,000	2,850	375	12,000
12,000	27,000	16,000	18,500	2,190	6,000	2,850	375	12,000
12,000	27,000	16,000	18,500	2,160	6,000	2,850	375	12,000
12,000	27,000	16,000	18,500	2,135	6,000	2,900	350	12,000
12,000	31,500	16,000	18,500	2,110	9,500	—	—	12,000
12,000	32,000	22,000	18,500	2,080	9,500	—	—	12,000
12,000	32,000	29,500	18,500	2,050	9,500	—	—	12,000
12,000	32,000	29,500	18,500	2,025	9,500	—	—	12,000
12,000	32,000	29,500	18,500	2,000	9,500	—	—	12,000
12,000	32,000	37,000	18,500	1,980	9,500	—	—	12,000
12,000	32,000	57,500	18,500	1,965	9,500	—	—	12,000
12,000	32,000	57,500	18,500	1,950	9,500	—	—	12,000
6,000	15,000	27,500	71,500	1,930	9,500	—	—	12,000
—	—	—	74,000	—	9,500	—	—	48,000
—	—	—	8,500	—	24,000	—	—	48,000
—	—	—	—	—	16,400	—	—	24,000
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
<u>\$ 162,000</u>	<u>\$ 404,500</u>	<u>\$ 386,000</u>	<u>\$ 394,500</u>	<u>\$ 24,925</u>	<u>\$ 165,400</u>	<u>\$ 14,300</u>	<u>\$ 1,850</u>	<u>\$ 288,000</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

June 30, 2002

*(Dollars in Thousands)**Payable from General Fund Revenues*

	Public Improvement Series 2001A 3-1-01 4.5-5.0%	Public Improvement Series 2002A 3-1-02 4.0-5.5%	Public Improvement Series 2002B 3-1-02 3.5-4.0%	Public Improvement Series 2002C 4-1-02 3.0-4.0%	Public Improvement Series 2002D 5-1-02 Variable to 18%	Public Improvement Series 2002E 5-1-02 Variable to 18%	Public Improvement Series 2002F 5-1-02 Variable to 18%
Bonds Authorized and Issued:							
Ch. 1048, 1987 session law	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 935, 1989 session law..	—	—	—	—	—	—	—
Ch. 542, 1993 session law..	—	—	—	—	—	—	—
Ch. 631, 1995 session law..	100,000	—	—	—	55,000	—	—
General Statute Ch. 142.....	—	—	—	—	—	—	—
Ch. 590, 1995 session law..	—	—	—	—	—	—	—
Ch. 132, 1998 session law..	30,000	218,906	35,000	10,600	—	—	—
Ch. 3, 2000 session law.....	250,000	—	—	—	33,750	88,750	88,750
Total bonds authorized and issued.....	380,000	218,906	35,000	10,600	88,750	88,750	88,750
Amortization.....	—	(797)	—	—	—	—	—
Accretion.....	—	—	—	—	—	—	—
Bonds retired.....	16,000	—	—	—	—	—	—
Partial defeasances.....	—	—	—	—	—	—	—
Bonds outstanding— June 30, 2002.....	<u>\$ 364,000</u>	<u>\$ 218,109</u>	<u>\$ 35,000</u>	<u>\$ 10,600</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>
Bond Maturity As Follows:							
2002-03.....	16,000	7,914	17,500	2,150	—	—	—
2003-04.....	16,000	7,819	17,500	2,150	—	—	—
2004-05.....	16,000	25,014	—	2,150	—	—	—
2005-06.....	16,000	24,712	—	2,150	—	—	—
2006-07.....	16,000	24,563	—	2,000	—	—	—
2007-08.....	16,000	26,242	—	—	—	—	—
2008-09.....	16,000	25,926	—	—	—	—	—
2009-10.....	16,000	25,614	—	—	—	—	—
2010-11.....	16,000	25,305	—	—	—	—	—
2011-12.....	16,000	25,000	—	—	—	—	—
2012-13.....	16,000	—	—	—	6,250	6,250	6,250
2013-14.....	16,000	—	—	—	6,250	6,250	6,250
2014-15.....	16,000	—	—	—	6,250	6,250	6,250
2015-16.....	16,000	—	—	—	6,250	6,250	6,250
2016-17.....	28,000	—	—	—	6,250	6,250	6,250
2017-18.....	64,000	—	—	—	10,750	10,750	10,750
2018-19.....	48,000	—	—	—	23,250	23,250	23,250
2019-20.....	—	—	—	—	18,750	18,750	18,750
2020-21.....	—	—	—	—	4,750	4,750	4,750
Total Bonds Outstanding....	<u>\$ 364,000</u>	<u>\$ 218,109</u>	<u>\$ 35,000</u>	<u>\$ 10,600</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>

Table 5

<u>Payable from General Fund Revenues</u>	<u>Payable from Highway Trust Fund Revenues</u>
Public Improvement Series 2002G 5-1-02 Variable to 18%	Highway Series 1997A 11-1-97 4.5-5.0%
\$ —	\$ —
—	—
—	—
—	—
—	—
—	250,000
—	—
<u>88,750</u>	<u>—</u>
88,750	250,000
—	—
—	—
—	66,700
<u>—</u>	<u>—</u>
<u>\$ 88,750</u>	<u>\$ 183,300</u>
—	16,675
—	16,675
—	16,675
—	16,675
—	16,675
—	16,675
—	16,675
—	16,675
—	16,675
6,250	16,550
6,250	—
6,250	—
6,250	—
6,250	—
10,750	—
23,250	—
18,750	—
4,750	—
<u>\$ 88,750</u>	<u>\$ 183,300</u>

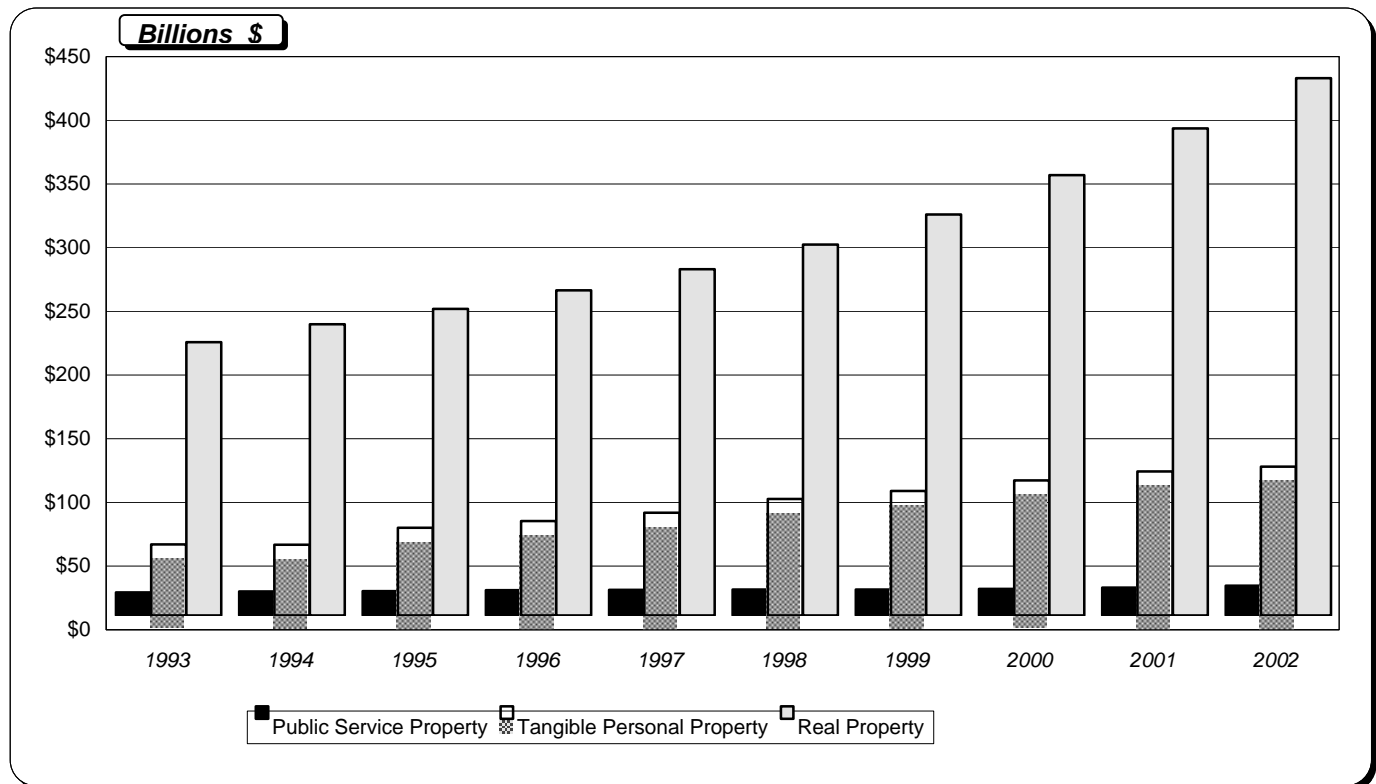
**STATEWIDE ASSESSED PROPERTY VALUES
REAL PROPERTY, TANGIBLE PERSONAL PROPERTY AND
PUBLIC SERVICE COMPANIES**

For the Fiscal Years 1993-2002

Table 6

For the Years	Assessed Value at January 1			
	Real Property	Personal Property	Public Service Companies	Total
2002	421,831,969,378	116,740,143,820	23,355,586,210	561,927,699,408
2001	382,422,908,009	112,992,132,642	21,952,438,541	517,367,479,192
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

**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**

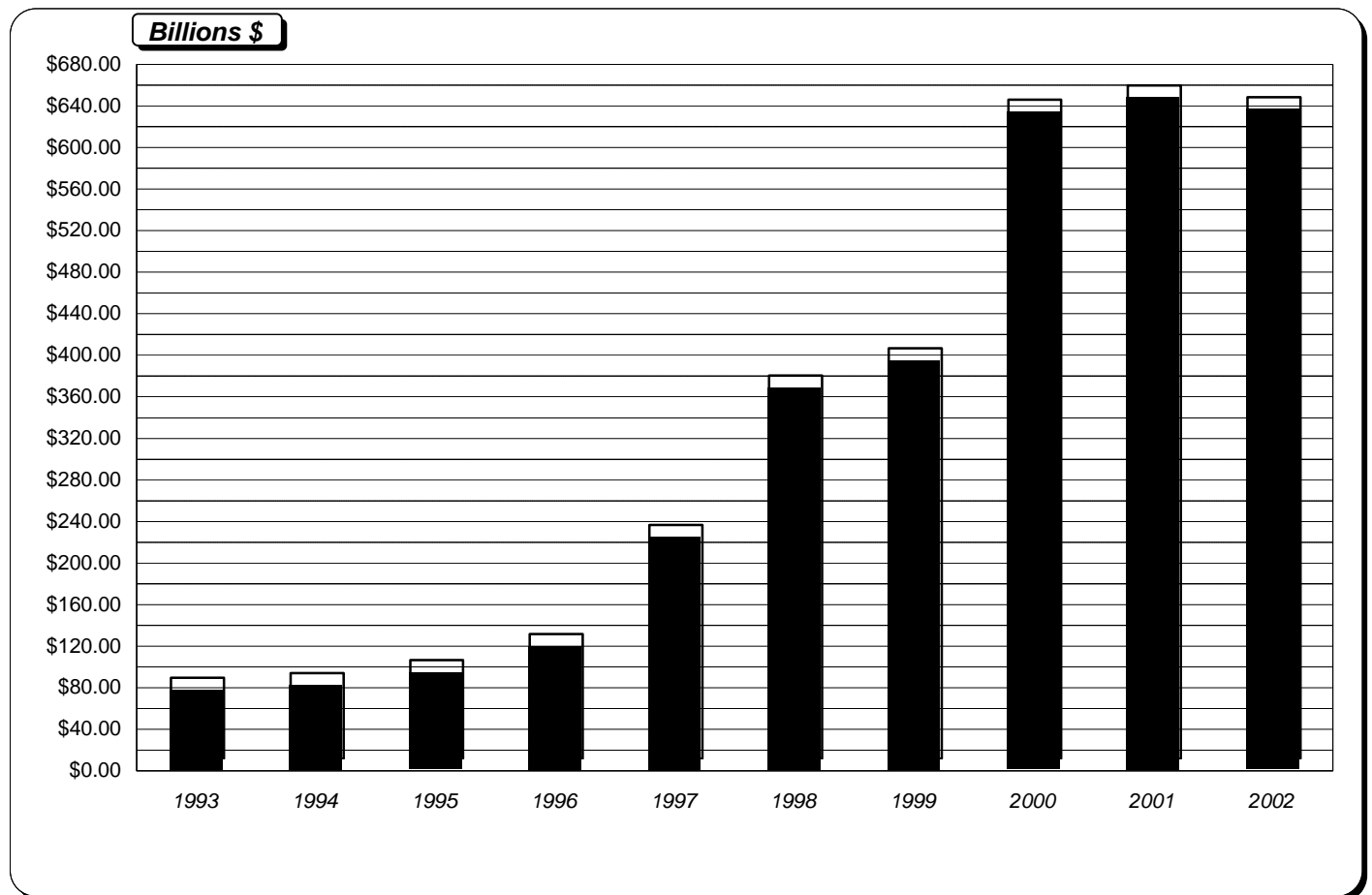
For the Years 1993-2002
(Dollars in Thousands)

Table 7

Commercial, Savings Banks & Thrifts			
As of June 30	Chartered		Total Deposits
	State	National	
2002	70,914,385	565,715,954 [1], [2]	636,630,339

Banks				Savings and Loan Associations			
As of June 30	Chartered		Total Deposits	As of Dec. 31	Chartered		Total Deposits
	State	National			State	Federal	
2001	68,181,993	575,167,149	[1] 643,349,142	2000	2,563,408	2,113,000	4,676,408
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

**Deposits in North Carolina Financial Institutions
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 state by North Carolina banks.

[2] Savings & Loans were merged with banks as of July 1, 2001.

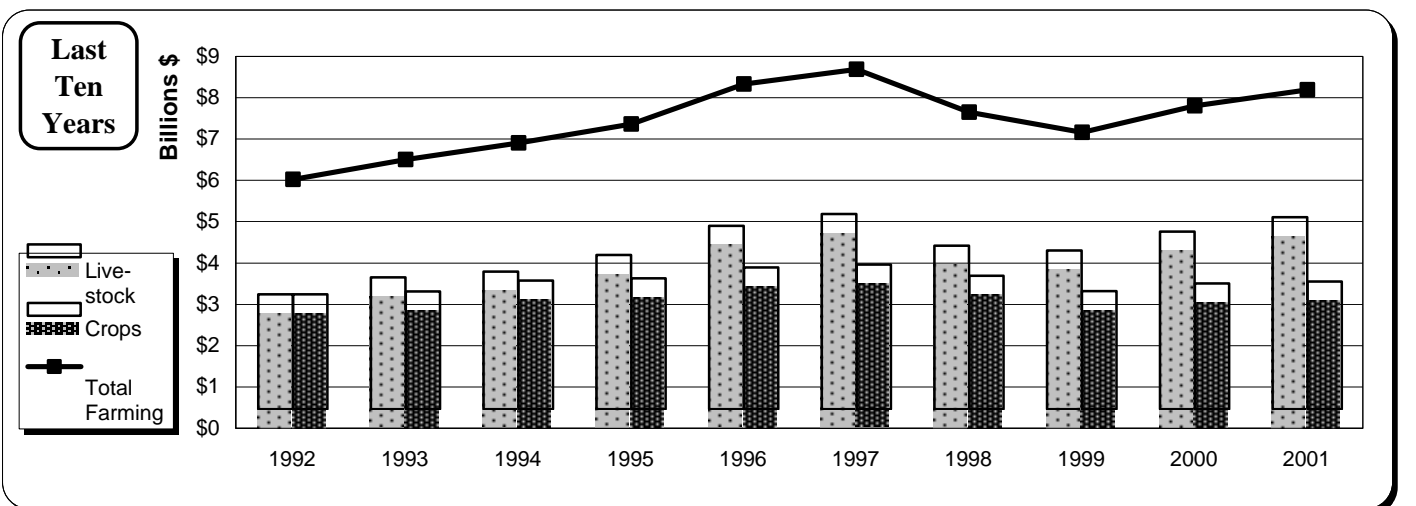
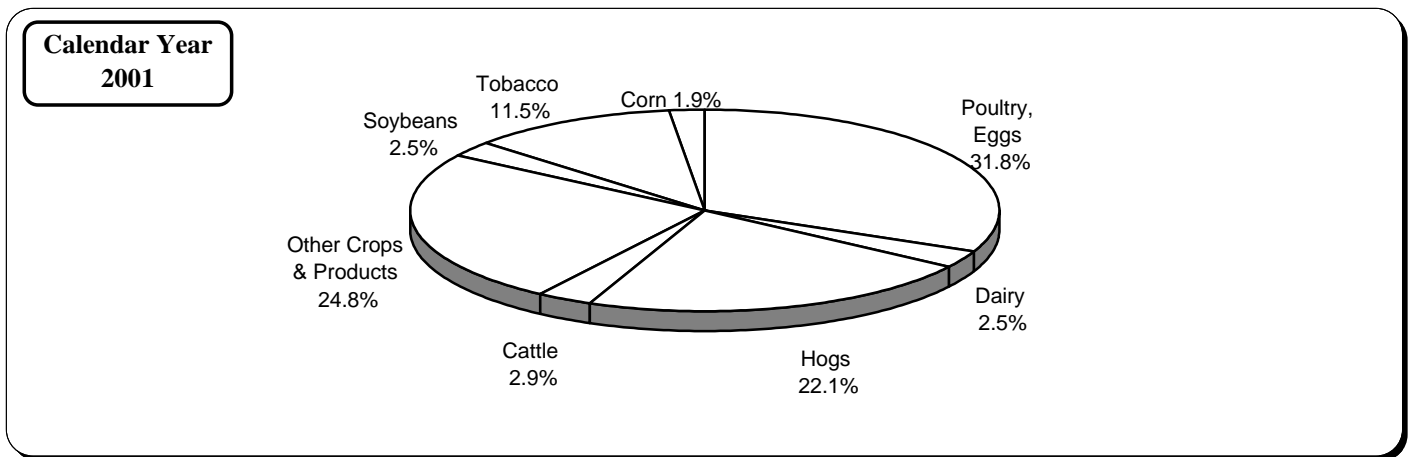
CASH RECEIPTS FROM FARMING BY COMMODITIES

For the Calendar Years 1992-2001
(Dollars in Millions)

Table 8

Year	Livestock and Related Products						Crops					Total All Livestock and Crops
	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	
2001	2,458.2	196.1	1,709.8	227.6	52.3	4,644.0	885.8	190.3	148.1	1,862.4	3,086.6	7,730.6
2000	2,171.3	174.5	1,671.6	231.7	50.8	4,299.9	854.1	171.7	120.9	1,893.5	3,040.2	7,340.1
1999	2,212.3	207.1	1,160.3	208.7	51.3	3,839.7	784.2	174.7	101.5	1,798.3	2,858.7	6,698.4
1998	2,225.0	208.0	1,323.1	154.0	46.2	3,956.3	976.7	173.8	111.7	1,966.5	3,228.7	7,185.0
1997	2,210.3	193.6	2,058.8	213.1	47.5	4,723.3	1,193.2	270.9	196.6	1,843.0	3,503.7	8,227.0
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

CASH RECEIPTS FROM FARMING



Source: North Carolina Crop and Livestock Reporting Service (Data for 2001 is not available.)

MAJOR PRIVATE EMPLOYERS IN NORTH CAROLINA*Table 9*

The State's largest major private employers, ranked in order according to first quarter 2001 preliminary employment averages, are listed:

2002 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	U S Airways, Inc.	Airline
7	Harris Teeter, Inc.	Supermarket chain
8	Lowe's Home Centers, Inc.	Hardware chain
9	Sara Lee Corporation	Hosiery, baked goods, apparel
10	Manpower Temporary Services	Temporary employment agency
11	Belk, Inc.	Department store chain
12	United Parcel Service, Inc.	Delivery services
13	K-Mart Corporation	Discount store chain
14	B B & T Corporation	Banking and financial services
15	Northern Telecom, Inc.	Telecommunications
16	Duke Energy Corporation	Utility - electrical
17	Sears Roebuck and Company	Department store chain
18	Bank of America Corporation	Banking and financial services
19	Broyhill Furniture Industries, Inc.	Furniture manufacturing
20	R J Reynolds Tobacco Corporation	Tobacco
21	North Carolina Baptist Hospitals, Inc.	Medical services
22	Freightliner Corporation	Truck manufacturing
23	Bell South Telecommunications, Inc	Telecommunications
24	Smithfield Packing Co.	Meat packing
25	GlaxoSmithKline	Pharmaceuticals

SCHEDULE OF DEMOGRAPHIC DATA

For the Years 1950, 1960, 1970, 1980, 1990, 1993-2002

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.
2002	287,503,000 [F]	0.95%	8,325,435 [F]	1.70%	30,472 [G]	\$ 27,514 [G]	90.29%
2001	284,797,000 [D]	0.95%	8,186,268 [D]	1.70%	30,472 [E]	\$ 27,514 [E]	90.29%
2000	282,125,000 [D]	3.46%	8,049,313 [D]	5.25%	29,770 [E]	27,055 [E]	90.88%
1999	272,691,000 [B]	0.90%	7,647,934 [C]	1.35%	27,880 [E]	25,504 [E]	91.48%
1998	270,248,000 [B]	0.92%	7,545,735 [C]	1.58%	26,893 [E]	24,661 [E]	91.70%
1997	267,784,000 [B]	0.96%	7,428,579 [C]	1.66%	25,412 [E]	23,468 [E]	92.35%
1996	265,229,000 [B]	0.92%	7,307,565 [C]	1.70%	24,270 [E]	22,350 [E]	92.09%
1995	262,803,000 [B]	0.95%	7,185,327 [C]	1.76%	23,255 [E]	21,462 [E]	92.29%
1994	260,327,000 [B]	0.99%	7,060,881 [C]	1.64%	22,340 [E]	20,563 [E]	92.05%
1993	257,783,000 [B]	1.08%	6,947,216 [C]	1.69%	21,539 [E]	19,770 [E]	91.79%
1990	248,791,000 [A]	9.82%	6,632,448 [A]	12.79%	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 estimate - July 1, 1991 - 1999, based on April, 1990 census population of 6,628,637 and April census population of 8,049,313

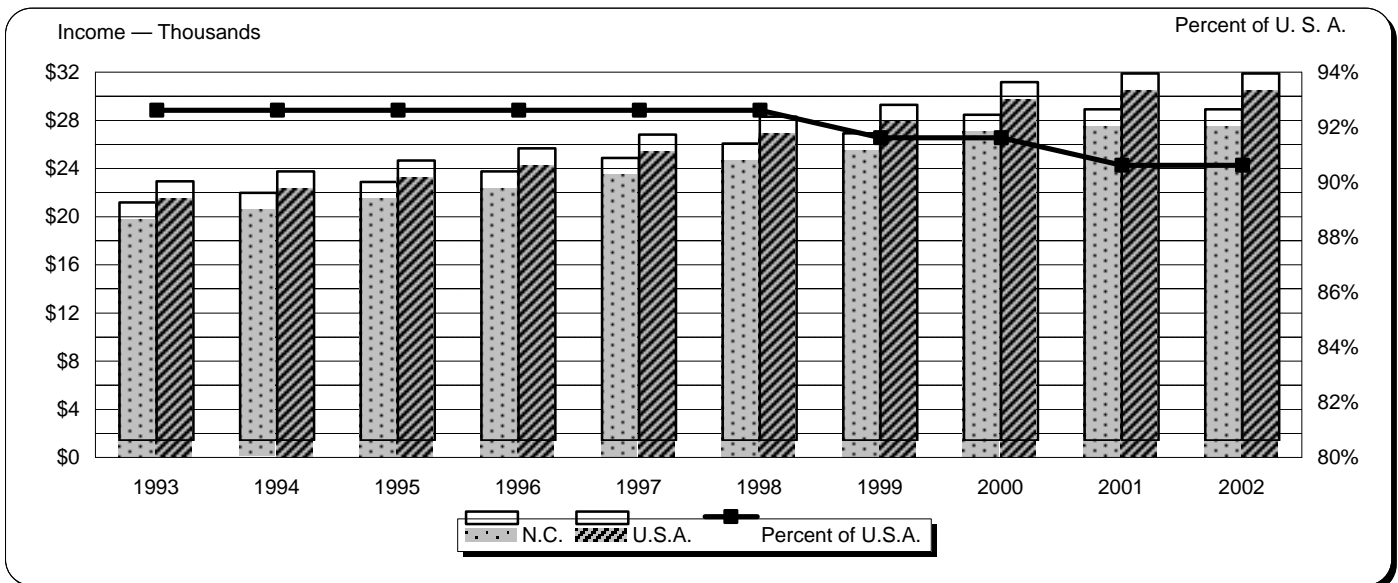
[D] - U.S. Census estimates based on 2000 census

[E] - Bureau of Economic Analysis estimate

[F] - Since the 2002 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2002 amounts.

[G] - 2002 numbers reflect 2001 estimates

**Per Capita Income
North Carolina Compared to United States
1993 to 2002**



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

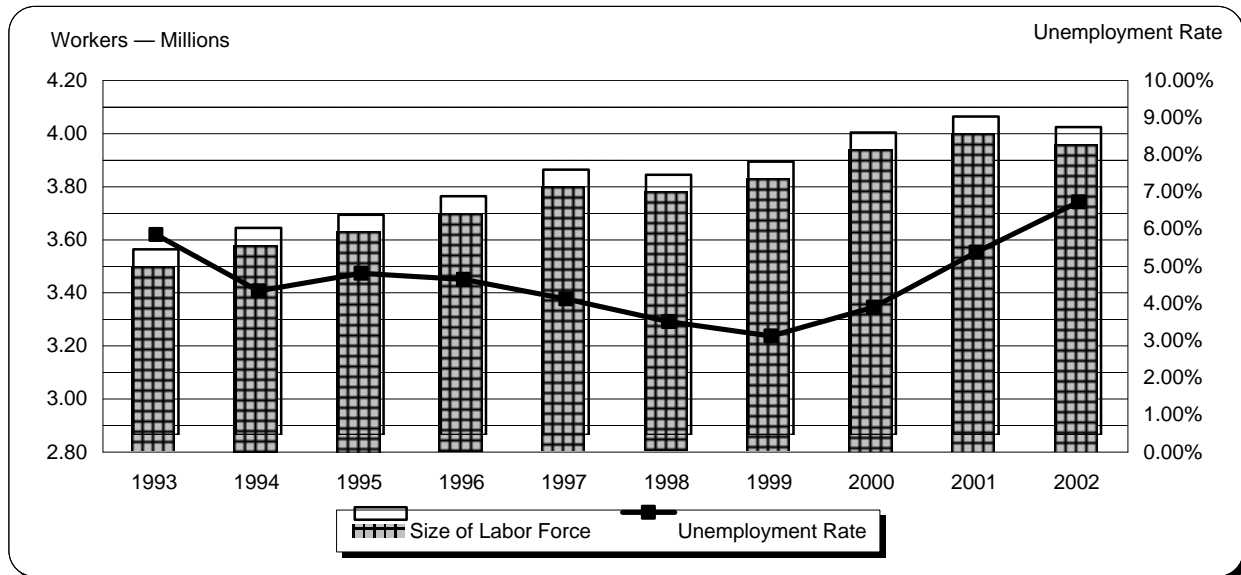
N.C. Employment Security Commission

Table 10

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
2002	3,964,000	3,715,400	248,600	6.27%	1,285,729	7,498,181	40,763
2001	3,999,300	3,802,500	196,800	4.92%	1,267,070	7,344,437	23,555
2000	3,941,000	3,805,300	135,700	3.44%	1,249,922	7,112,610	77,351
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
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
1993 to 2002**



Sources:

[4] Public School Enrollment - Final Average Daily Membership for the School Year September 1 to June 30

N.C. Department of Public Instruction

[5] Motor Vehicle Registrations - For the Fiscal Year Ended June 30

N.C. Division of Motor Vehicles

[6] Residential Housing Permits

N.C. Department of Labor

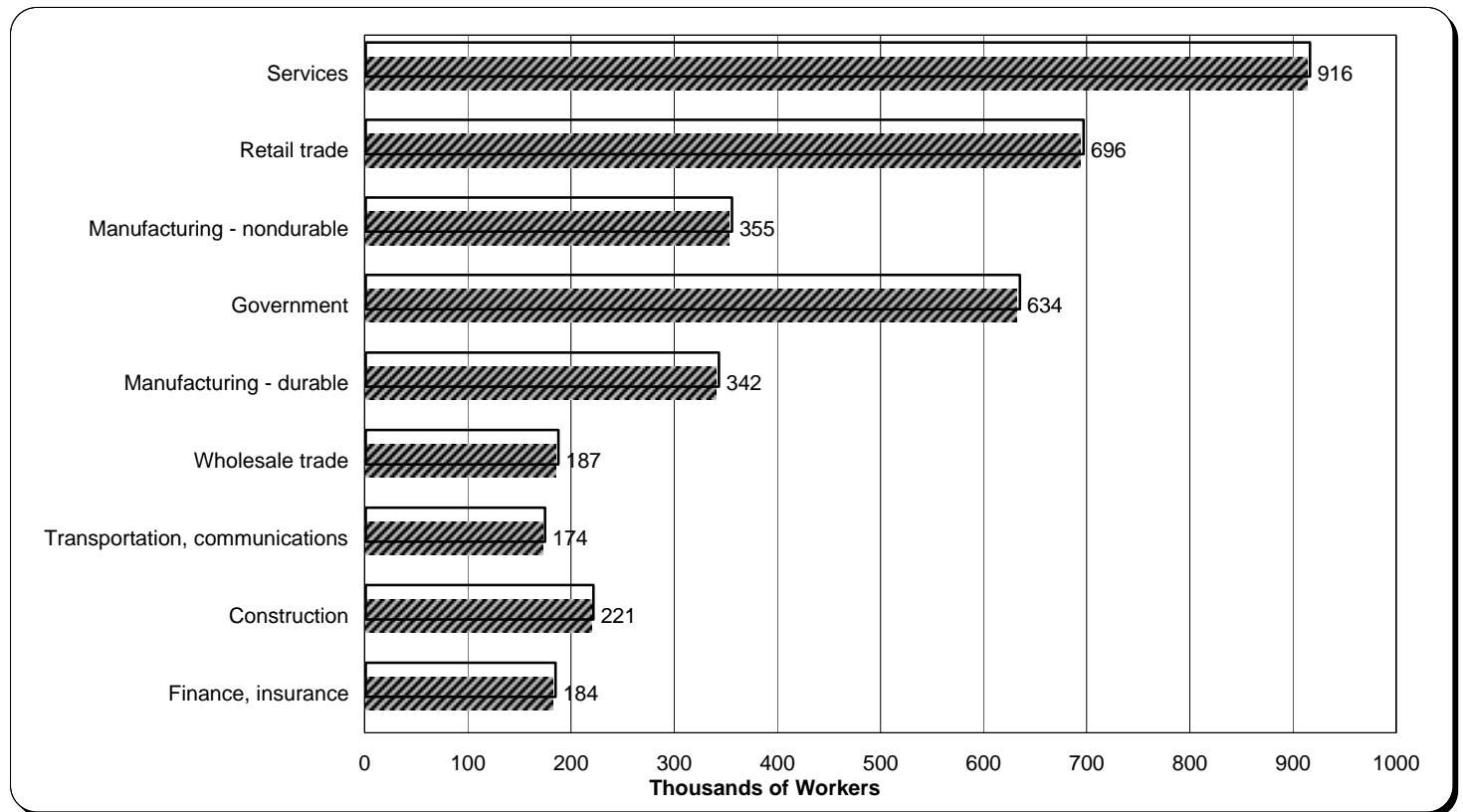
**TEN LARGEST NON-AGRICULTURAL INDUSTRIES
BY NUMBER OF EMPLOYEES**

For the Calendar Years 1992-2001
(Expressed in Thousands of Workers)

Table 11

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Manufacturing:										
Nondurable goods.....	354.9	397.9	414.0	431.7	452.5	407.9	478.4	496.1	496.8	497.7
Durable goods.....	342.4	385.0	384.2	389.7	387.0	435.6	379.0	372.0	357.5	341.4
Retail trade.....	696.0	694.9	684.5	676.4	671.5	652.6	643.5	610.4	585.8	564.9
Services.....	915.5	944.6	913.9	870.7	825.9	784.0	729.0	687.6	655.4	612.7
Government.....	634.2	585.0	566.2	601.1	577.3	559.5	547.8	538.5	524.1	513.8
Contract construction.....	220.7	236.0	231.9	221.2	209.2	196.8	178.5	170.5	159.0	148.5
Wholesale trade.....	186.9	202.1	199.3	193.9	191.1	182.0	185.1	177.9	168.8	168.8
Transportation, communi- cations and public utilities.....	173.9	181.8	175.9	172.2	171.1	167.8	165.1	162.1	157.5	153.5
Finance, insurance and real estate.....	184.1	184.6	181.6	179.3	167.2	157.1	146.9	143.2	137.8	133.3
Mining.....	3.9	3.9	3.9	4.0	4.0	3.8	3.7	3.6	3.4	3.4
Total Non-Agricultural Employment.....	<u>3,712.5</u>	<u>3,815.8</u>	<u>3,755.4</u>	<u>3,740.2</u>	<u>3,656.8</u>	<u>3,547.1</u>	<u>3,457.0</u>	<u>3,361.9</u>	<u>3,246.1</u>	<u>3,138.0</u>
Manufacturing.....	697.3	782.9	798.2	821.4	839.5	843.5	857.4	868.1	854.3	839.1
Non-Manufacturing.....	3,015.2	3,032.9	2,957.2	2,918.8	2,817.3	2,703.6	2,599.6	2,493.8	2,391.8	2,298.9

**Number of Employees by Industry - 2001
(Non-Agricultural)**



Source: North Carolina Employment Security Commission (Data for 2002 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, 1993-2002

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, 1993-2002

Table 12

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.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1) Required contribution and investment revenue:										
Earned.....	\$ 6,805	\$ 6,573	\$ 6,749	\$ 7,180	\$ 7,099	\$ 8,354	\$ 6,343	\$ 6,687	\$ 8,136	\$ 9,599
Ceded.....	441	1,834	2,134	2,264	2,298	2,041	1,683	1,727	2,453	2,839
Net earned.....	6,364	4,739	4,615	4,916	4,801	6,313	4,660	4,960	5,683	6,760
2) Unallocated expenses	1,109	2,511	2,843	2,909	2,941	2,706	2,398	2,541	3,214	3,597
3) Estimated claims and expenses, end of policy year:										
Incurred.....	3,128	4,426	5,078	3,246	14,351	8,496	8,615	21,141	6,449	4,846
Ceded.....	—	—	359	—	6,862	700	357	—	—	—
Net incurred.....	3,128	4,426	4,719	3,246	7,489	7,796	8,258	21,141	6,449	4,846
4) Paid (cumulative) as of:										
End of policy year.....	1,468	2,741	3,790	2,061	9,595	2,044	4,077	13,158	422	392
One year later.....	3,221	4,348	5,107	3,723	13,129	4,193	5,931	15,818	2,475	
Two years later.....	3,295	4,429	5,242	3,742	13,803	4,297	6,108	17,368		
Three years later.....	3,295	4,437	5,246	3,744	13,810	4,324	6,388			
Four years later.....	3,295	4,440	5,246	3,760	13,822	4,324				
Five years later.....	3,295	4,440	5,246	3,760	13,822					
Six years later.....	3,295	4,440	5,246	3,760						
Seven years later.....	3,295	4,440	5,246							
Eight years later.....	3,295	4,440								
Nine years later.....	3,295									
5) Reestimated ceded claims and expenses.....	—	—	359	—	6,862	700	357	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	3,128	4,426	4,719	3,246	7,489	7,796	8,258	21,141	6,449	4,846
One year later.....	3,524	4,445	4,943	3,814	6,771	3,724	6,740	17,240	2,475	
Two years later.....	3,460	4,445	4,927	3,789	7,023	3,735	6,161	17,368		
Three years later.....	3,334	4,445	4,887	3,765	6,976	3,640	6,031			
Four years later.....	3,299	4,440	4,887	3,760	6,960	3,624				
Five years later.....	3,295	4,440	4,887	3,760	6,960					
Six years later.....	3,295	4,440	4,887	3,760						
Seven years later.....	3,295	4,440	4,887							
Eight years later.....	3,295	4,440								
Nine years later.....	3,295									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	167	14	168	514	(529)	(4,172)	(2,227)	(3,773)	(3,974)	—

n/a= not available

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

For the Fiscal Years 1993-2002

Table 13

<u>State Agency</u>	<i>Fiscal Years Ended June 30</i>									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Education:										
Public education [1]	139,503	138,623	133,531	130,525	127,578	123,027	116,695	113,123	108,649	108,539
Higher education.....	33,749	33,756	33,326	31,556	31,173	30,607	30,386	30,094	29,611	31,621
Community colleges.....	13,770	13,045	13,045	11,192	10,534	10,309	10,729	10,814	10,892	10,660
Total Education.....	187,022	185,424	179,902	173,273	169,285	163,943	157,810	154,031	149,152	150,820
% Annual growth.....	0.86%	3.07%	3.83%	2.36%	3.26%	3.89%	2.45%	3.27%	(1.11)%	
% Cumulative growth.....	24.00%	22.94%	19.28%	14.89%	12.24%	8.70%	4.63%	2.13%	(1.11)%	
All Other:										
Health and human services [2].....	18,103	18,754	18,640	18,606	19,724	18,373	18,373	18,191	17,753	17,159
% Annual growth.....	(3.47)%	0.61%	0.18%	(5.67)%	7.35%	0.00%	1.00%	2.47%	3.46%	
% Cumulative growth.....	5.50%	9.30%	8.63%	8.43%	14.95%	7.08%	7.08%	6.01%	3.46%	
Correction	19,062	19,001	19,217	18,796	19,774	19,099	18,879	17,890	13,592	13,336
% Annual growth.....	0.32%	(1.12)%	2.24%	(4.95)%	3.53%	1.17%	5.53%	31.62%	1.92%	
% Cumulative growth.....	42.94%	42.48%	44.10%	40.94%	48.28%	43.21%	41.56%	34.15%	1.92%	
Transportation.....	16,505	16,524	16,281	16,081	17,010	16,536	16,411	16,593	15,451	15,556
% Annual growth.....	(0.11)%	1.49%	1.24%	(5.46)%	2.87%	0.76%	(1.10)%	7.39%	(0.67)%	
% Cumulative growth.....	6.10%	6.22%	4.66%	3.37%	9.35%	6.30%	5.50%	6.67%	(0.67)%	
Judicial	5,463	5,458	5,438	5,337	5,486	5,124	4,978	5,002	4,915	4,628
% Annual growth.....	0.09%	0.37%	1.89%	(2.72)%	7.06%	2.93%	(0.48)%	1.77%	6.20%	
% Cumulative growth.....	18.04%	17.93%	17.50%	15.32%	18.54%	10.72%	7.56%	8.08%	6.20%	
Other.....	18,568	18,673	18,345	17,465	16,457	16,964	16,730	16,921	16,186	15,425
% Annual growth.....	(0.56)%	1.79%	5.04%	6.13%	(2.99)%	1.40%	(1.13)%	4.54%	4.93%	
% Cumulative growth.....	20.38%	21.06%	18.93%	13.23%	6.69%	9.98%	8.46%	9.70%	4.93%	
Total Positions.....	264,723	263,834	257,823	249,558	247,736	240,039	233,181	228,628	217,049	216,924
N.C. population (1000's)	8,325 [3]	8,186	8,049	7,648	7,546	7,429	7,308	7,185	7,061	6,947
Annual growth	1.70%	1.70%	5.25%	1.35%	1.58%	1.66%	1.70%	1.76%	1.64%	
Cumulative growth	19.84%	17.84%	15.86%	10.09%	8.62%	6.94%	5.20%	3.43%	1.64%	

[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.

[3] Since 2002 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2002 amount.

SCHEDULE OF MISCELLANEOUS STATISTICS

As of June 30, 2002

Table 14

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.....	78,350
State police protection:	
Number of stations.....	61
Number of state police.....	1,445
Higher Education:	
<i>Community colleges</i>	
Number of campuses.....	58
Number of students [average annual full time equivalent (FTE)].....	169,924
<i>State universities</i>	
Number of campuses.....	16
Number of regular term students (FTE).....	141,272
Number of regular term teaching positions (FTE).....	10,191
Recreation:	
Number of State parks and other recreational areas.....	55
Area of State parks (acres).....	168,335
Area of State forests (acres).....	363,861

<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>