NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2003

MICHAEL F. EASLEY
GOVERNOR

ROBERT L. POWELL
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

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

MICHAEL F. EASLEY
Governor of North Carolina

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For the Fiscal Year Ended June 30, 2003

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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 2003 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, B*asic 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

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 as allowed by law. This results in the "Final Budget" presented in the required supplementary information.

Economic Condition and Outlook

National Situation

The economic experience during the last two state fiscal years has been unprecedented. Both years began with prospects of a recovery from the economic woes that started with the March 2000 stock market crash. During the first year (2001-02 fiscal year) the events of September 11 and the Anthrax scare plunged the nation into a full-scale recession. For the second year (2002-03) the build-up to the Iraq invasion, coupled with the SARS threat and corporate malfeasance, affected consumer and business confidence.

Last winter the immediate forecast risks included the looming conflict with Iraq, terrorist threats, and high-energy prices. Many economists, including Chairman Alan Greenspan of the Federal Reserve, felt that the elimination or reduction of these pressures would lead to a solid economic recovery. Part of their reasoning was that the lowest interest rates in four decades, combined with the three major federal tax cut packages and aggressive federal spending levels, would provide a substantial boost to consumer spending and business investment.

The most important tax stimulus may have occurred this past May when the Congress raised the level of capital purchases that could be written off in the year of acquisition (in lieu of depreciating over many years) from $25,000 to $100,000 and increased the first-year bonus depreciation amount from the 30% level adopted in 2002 to 50%. It is difficult to overstate the importance of these capital expensing changes. These measures, coupled with a 4% prime lending rate, have lowered the cost of capital to a level not seen in modern times and may be a major reason why the Federal Reserve no longer feels the need to cut short-term interest rates.

The cost of capital argument is important because the 2001 recession was noted for a steep decline in capital investment. The trigger was the tech stock crash, which caused consumer wealth levels to plunge. Consumers immediately cut back spending, especially for major household goods. Suddenly businesses discovered that they were saddled with excess capacity, especially in the telecommunications and computer equipment sectors.

In recent months there has been an improvement in the outlook of consumers and businesses as measured by confidence surveys. Part of this has to do with lower energy prices, the success in Iraq, and the lessening of terrorist threats. Another positive is the 25% rise in stock prices. This latter factor not only offers investors hope, but provides additional wealth that can be spent. Finally, federal tax rebate checks sent out this summer boosted consumer spending.

Even with all of these factors, many businesses continue to be reluctant to expand facilities and rehire workers. This means that the level of unemployment claims remains abnormally high for this late in the recovery. Major layoff decisions continue to show up daily in media reports, keeping consumers on edge. Employers who are fortunate enough to see increased demand for their products are extending the hours of workers or using temporary employment services. For these reasons we continue to experience a jobless recovery.

On the consumer side of the economy, the continued daily struggles in the Iraq stabilization effort, combined with persistent terrorist threats and stubborn energy prices continue to cause people to feel skittish about the future. In addition, the spending binge of the late 1990s and stable housing and auto sales during the recession means that pent-up demand is not as significant as in prior recoveries.

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 our nonagricultural employment is in manufacturing versus 12% for the U.S. A more telling measure is the share of Gross State Product represented by manufacturing: 23% in North Carolina versus 17% for the United States.

The loss of manufacturing jobs did not begin with the 2001 recession. Data compiled by the Employment Security Commission indicate that manufacturing experienced a fairly rapid recovery from the 1990-91 recession, with employment 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% quicker following the Gulf War downturn. Expressed another way, North Carolina was the fifth fastest growing state during the 1992-93 period in terms of personal income, due in part to the recovery in manufacturing.

After a leveling off period, manufacturing employment began a steady decline in mid-1995 due to the mild national economic slowdown and the kicking in of the North American Free Trade Agreement (NAFTA). The rate of decline began to accelerate in February 2001 and peaked at an 8.8% rate in 2002, as shown in the table below.

N.C. Employment Growth
In Selected Major Sectors

Year	Manufacturing	Finance	Services
1994	0.5%	1.2%	7.6%
1995	0.5%	1.9%	4.5%
1996	-1.7%	8.2%	4.5%
1997	-1.0%	7.4%	5.7%
1998	-0.5%	5.3%	6.0%
1999	-2.5%	-0.4%	6.0%
2000	-2.4%	0.7%	3.3%
2001	-7.1%	4.6%	1.4%
2002	-8.8%	1.1%	1.1%

Source: Employment Security Commission

Particularly hard hit were the textile and apparel sectors, with North Carolina jobs in these sectors dropping over 15% on a year-over-year basis by the spring of 2001. While the rate of decline has slowed due to the start of the economic recovery, the erosion continues to take place.

Another issue affecting the manufacturing side of the economy is the prolonged overcapacity in the telecommunications and computer hardware sectors. This issue had a major impact late in the recession on the Research Triangle and Catawba Valley (Hickory) areas of the State. This is in stark contrast to the late-1990s when employers were having to import in workers to fill production lines. In the Hickory area for example, the unemployment rate for June of the last four years has been as follows:

2000	2.1%
2001	7.0%
2002	10.0%
2003	9.3%

Even the "improvement" between June 2002 and June 2003 is due to the fact that a lot of potential workers simply gave up and did not seek employment.

The jobs data in the employment table above indicates that job growth in the finance and services areas had begun slowing prior to 2000. This is important because strong growth in these sectors in the late-1990s, combined with the strong experience in telecommunications and other non-traditional North Carolina industries, more than offset NAFTA-related job losses in textiles and apparel. The weakness in finance and services was due primarily to merger and consolidation activity in the banking and health care sectors.

There are some preliminary signs that the state’s economy has begun to recover from the weakness this spring. Gross state and local sales tax receipts, adjusted for the recent tax hikes, grew at a 1.6% rate for the combined June and July period 2003. This contrasts to the 2.5% decline for the preceding three months. The growth accelerated to 2.6% in August and 3.3% in September as the federal rebates checks worked their way through the spending stream.

Withholding tax collections from large employers have moved to a slight growth path in recent months after being essentially flat for almost two years. One reason is the uptick in activity by the nonmanufacturing sectors that make up almost 82% of the economy. Finally, record real estate refinancing due to low mortgage rates put cash in consumers' pockets and zero percent financing by car dealers has propped up vehicle sales.

For the 2003-04 fiscal year, the North Carolina budget assumed a continued subpar economic recovery, both in terms of the absolute level (national outlook) and the usual growth premium specific to North Carolina during the years of a recovery. This experience would be very different from the explosive growth after the last two recessions. One reason is the continued weakness in the telecommunications and tech sector due to continued overcapacity. 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 latter sectors. We are concerned that it may take some time for the nation’s telecommunications companies to work down excess inventory.

Another major issue is the continued erosion of traditional manufacturers (textiles, apparel, furniture, tobacco) due to NAFTA or weakening market conditions. Even though these sectors are becoming a much smaller share of the economy, the magnitude of the decline is still a drag on total employment growth.

Key Economic Forecast Variables
(% Change Unless Noted)

	Fiscal Year 2002-2003 Actual	Fiscal Year 2003-2004 Budgeted
National		
Real Economic Growth*	2.6%	2.6%
Industrial Production	.6%	1.2%
Nominal Personal Income	3.2%	3.8%
Consumer Price Index	2.2%	1.2%
Short-Term Interest Rates (Actual Rate)	1.4%	1.4%
Mortgage Rates (Actual Rate)	5.9%	6.1%
Pre-Tax Profits (Calendar Yr.)	-.7%	12.1%
North Carolina		
Total Employment	-.5%	.9%
Unemployment Rate	6.4%	6.4%
Personal Income	3.3%	3.5%
Retail Sales	.5%	3.6%
Auto Sales (Units)	-.3%	-2.7%

*Adjusted for inflation

— Economic analysis prepared by David Crotts
Fiscal Research Division
North Carolina General Assembly
October 29, 2003

Issues and Observations

During fiscal year 2003, 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. 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.

Business Infrastructure

North Carolina state government is a large, complex organization that relies on its core business management systems (personnel/payroll, budget, accounting, tax & revenue, banking and retirement) to provide quality and timely services to its citizens, as well as to retain the trust of the public for fair and equitable collection of revenues, cost effectiveness of investments, and propriety of expenditures.

The State continues to experience challenges from budgetary constraints while the public desires expanded services and taxpayers demand more effective and efficient operations. With an annual General Fund budget of $26.8 billion and over 264,000 employees, the State would be a Fortune 50 company if it were a private organization. Large, complex computer systems and sophisticated telecommunications networks are required to perform the business functions of the State. Robust financial and human resource systems, employing modern technology and linked together electronically, are necessary for meeting this need.

The State's current core business systems have limited functionality. They are old, rely on dated technology, do not communicate well with each other, are difficult to change for new operational requirements, and are hard to operate and maintain. Moreover, they do not provide information needed for management decision making under today's much more demanding needs, and they are at risk of failure due to old age, withdrawal of vendor support, and being run by a workforce that is rapidly reaching retirement age.

These concerns prompted the State to identify the need for further analysis of its current business systems and determine the feasibility of developing and implementing a new financial business infrastructure. In the 2001 session of the General Assembly, legislation was enacted to authorize a State Business Infrastructure Study. Session Law 2001-491 directed the Office of the State Controller (OSC) to determine the feasibility of developing and implementing a new business infrastructure for the State. The study, under the direction of the OSC with assistance from the Office of State Budget and Management (OSBM), the Office of Information Technology Services (ITS), and the Office of State Personnel (OSP) commenced in February 2003. Deloitte Consulting was engaged through a competitive bid process to complete the study through a two-phased approach.

- **Phase I – Inventory and Assessment - Completed April 4, 2003**
  Goal: To develop a high-level inventory and assessment of the business systems, subsystems and integration/ interface components that provide financial, human resource, and payroll information and support to programs in State government. This included the identification of technical and business requirements, problems and risks, and the approximation of present costs incurred for operations and maintenance.

- **Phase II – BluePrint for Selecting Improvement Approach – Completed October 31, 2003**
  Goal: To determine and document viable options for implementing a financial business infrastructure that would include integrated operations for budgeting, accounting, payroll, human resources, revenue collection, cash management, investments, and other business functions of State government. Descriptions, risks and costs for each alternative approach are provided, along with benefits, constraints and other relevant considerations.

The systems included in the State Business Infrastructure Study support the following business functions: financial management, cash management, payroll, human resources, budget management, procurement, treasury, retirement, and revenue accounting. For these core systems, a range of data was required to be collected. Specifically: core system purpose and capabilities; planned system enhancements; system interfaces; costs associated with existing systems operation; industry best practices; and, functional gaps/operational risks. The findings listed below resulting from the Phase I Inventory and Assessment project, further emphasize the State's current technology environment. At a high level, these findings are as follows:

- The State's administrative systems do not easily and routinely communicate with each other (i.e., lack of integration)
- The core business systems were developed using what is now dated technology
- The inability to maintain qualified staff to support dated technology systems increases the risk of system failure
- At the present time, the State does not have a documented core business systems enterprise (statewide) strategy
- A general lack of employee, employer or customer self-service exists within today's business system infrastructure
- The current business systems and processes available to support business functionality and management fail to meet industry best practices or efficient processing standards
- The inability of the core systems to meet agency business requirements results in the development and ongoing maintenance for a host of agency-based systems, and
- The current systems are generally paper based and signature driven and do not provide automated workflow, which would route documents electronically for review and approval

During Phase II, Deloitte developed a business case outlining the potential alternatives. Objectives of this phase were: build upon the information collected during Phase I; develop multiple courses of action for the State; communicate the degree of risk assigned to alternatives; evaluate implementation alternatives including funding requirements; and, recommend the best approaches to improve the State's core administrative business processes and infrastructure.

The Phase II criteria used to evaluate optional approaches for each system and develop comprehensive, enterprise action plans included: risks including potential or likelihood of business, technical, and security failure; current strengths and weaknesses of systems and their short-and long-term business and technical viabilities; benefits, including cost savings, operational efficiencies, and better information for management decision-making and policy-formulation; costs, including one-time investments and long-term ownership (such as upkeep and enhancement); current state budget condition and state/national economic realities; and, State priorities and funding cycles.

To prepare the business case, Deloitte evaluated several approaches to address the State's business needs. These alternatives included ERP (Enterprise Resource Planning) Implementation, outsourcing, stand-alone packages, custom development, enhancements to current system and best of breed. The evaluation resulted in three alternative approaches to replacement of the current business infrastructure. The alternatives vary from an extended implementation focusing on priority, most at risk, systems to a single ERP solution.

<u>Option 1 – Leverage and Extend Existing Systems, HR/Payroll Replace</u>

- Initiate Program Office structure
- Initiate risk reduction measures for existing system high risk areas
- Identify and prioritize enhancements to legacy systems
- Define and Implement an enterprise Data Warehouse to support legacy systems and future implementations
- Define HR/Payroll requirements, selection and implement replacement system
- Develop strategies for future replacement of existing financials, budgeting, and tax and revenue systems

Option 1 has minimal initial costs/investment to address existing business needs, mitigates risks of immediate failure for key systems but increases likelihood of failure over time due to condition of existing systems and extended project time line.

Option 2 – Phased Implementation by Best of Breed

- Initiate Program Office structure
- Implement systems replacement - phased approach
- Define requirements, selection & Implement:
  - § Data warehouse - year 1
  - § HR/Payroll package replacement or outsourced – year 2
  - § Finance and Budget implementation - year 3
  - § Tax and Revenue systems - year 5

Option 2 is a compromise between available up-front funding and the timely implementation. It improves business processes, mitigate risks of business, technical, and/or security failures; however, it may be too costly in the near-term for the State's budget situation.

Option 3 – Single ERP Solution

- Initiate Program Office structure
- Support aggressive implementation of a phased ERP package(s)
- Define & Implement:
  - § Data Warehouse
  - § HR/Payroll
  - § Financial and Budget
  - § Implement Tax & Revenue

Option 3 provides the most benefits; however, it requires significant up-front investments at a time when funding may not be available due to the State's current budget situation. Option 3 is also considered a major change management challenge.

The OSC is now in the process of discussing the above alternatives with the State's central managers and legislative leadership prior to making a formal recommendation to the Governor and subsequently to the May 2004 legislative session. Large technology transformation efforts such as this will have a significant impact on the state organization and resources and requires significant commitment from both the executive and legislative leaders.

For the State to be successful in replacing its financial and human resources systems it must put in place a program governance structure to manage, direct and monitor the activities of the various project teams. Ensure sufficient legislative and executive support throughout the implementation, including sufficient funding. Designate a fully dedicated and empowered Program Manager, with an appropriate set of additional, committed and skilled functional and technical support resources, to perform contract negotiation, vendor management, and project management activities. Update/streamline its business processes to derive maximum value from the systems enhancement or replacement efforts. Prepare and implement a change management and communication plan. And, review the state technology infrastructure to ensure its adequacy to meet the State's needs and support the system functionality.

Recognizing the possible adverse impacts of the continued use of the current business systems to the fiscal integrity of state government and the efficiency and effectiveness of its operations the State of North Carolina must decide upon a replacement strategy that weighs the risks of potential system failures with the current state budget condition and State funding priorities.

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 Benefits

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 7.56 % for the one-year period, a return of .13% for the three-year period and a return of 4.00% for the five-year period, ended June 30, 2003. These returns are the second best investment 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 5 % of all public plans for the last 12 months, and among the top 10 % for the past five years for the period ended June 30, 2003.

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, 2002 actuarial valuation. Specifically, the TSERS was funded at 108.4%, with the actuarial value of assets of $43.227 billion exceeding the actuarial accrued liability of $39.864 billion by $3.363 billion at December 31, 2002. Employer contributions to the TSERS decreased by $193.5 million, or 97.5% from the prior fiscal year. Investment balances increased by $1.51 billion, or 3.6% above the prior fiscal year, with a net investment income of $2.9 billion. The TSERS experienced a $206.6 million increase in benefit payments to retirees, an increase of 11.3% from fiscal year 2002.

Debt Administration

The State's general obligation bonds are rated Aa1 by Moody's, AAA by Standard & Poors, and AAA by Fitch. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers. 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 2003, 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 4.323%.

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 14 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, 2002. 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 10, 2003

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, 2002

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

President

Executive Director

ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

EXECUTIVE BRANCH

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Lieutenant Governor
Beverly E. Perdue

Secretary of State
Elaine F. Marshall

State Auditor
Ralph Campbell, Jr.

State Treasurer
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Superintendent of Public Instruction
Dr. Michael E. Ward

Attorney General
Roy A. Cooper, III

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Cherie K. Berry

Commissioner of Insurance
James E. Long

Cabinet Secretaries — Appointed by the Governor

Administration
Gywnn T. Swinson

Correction
Theodis Beck

Crime Control and Public Safety
Bryan E. Beatty

Cultural Resources
Lisbeth C. Evans

Commerce
James T. Fain

Environment & Natural Resources
William G. Ross, Jr.

Health and Human Services
Carmen Hooker Odom

Juvenile Justice and Delinquency Prevention
George L. Sweat

Revenue
E. Norris Tolson

Transportation
W. Lyndo Tippett

Appointed by Governor, confirmed by Legislature

Office of the State Controller
Robert L. Powell
State Controller

State Board of Education
Howard N. Lee
Chairman

Appointed by State Board of Community Colleges

H. Martin Lancaster
President

Appointed by University Board of Governors

Molly C. Broad
President

LEGISLATIVE BRANCH

General Assembly

Senate

President
Lieutenant Governor

President Pro Tempore
Marc Basnight

Deputy Pres. Pro Tempore
Charlie Smith Dannelly

Majority Leader
Tony Rand

Minority Leader
Patrick J. Ballentine

House of Representatives

Co-Speakers
James B. Black
Richard T. Morgan

Democratic Leader
Joe Hackney

Republican Leader
Joe Kiser

JUDICIAL BRANCH

North Carolina Supreme Court

Chief Justice
I. Beverly Lake, Jr.

Associate Justices
Edward Thomas Brady
Robert H. Edmunds, Jr.
Robert F. Orr
Mark D. Martin
Sarah Parker
George L. Wainwright, Jr.

Administrative
Office of the Courts
John M. 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

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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, 2003, 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 11 percent, 3 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units; the financial statements of the State Education Assistance Authority, which represent 13 percent, 6 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units; nor the financial statements of the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare, which represent 3 percent, 2 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with 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, 2003, 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 20 to the financial statements, the State of North Carolina implemented Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures (paragraphs 12 through 15),* and Governmental Accounting Standards Board Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets,* during the year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 10, 2003 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 142 and 143 and the Budgetary Comparison Schedule and Notes – General Fund on pages 144 through 147 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.

Ralph Campbell, Jr.
State Auditor

December 10, 2003

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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, 2003. 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.

Highlights

Government-wide:

— The State's total net assets increased slightly as a result of this year's operations. While net assets of governmental activities increased by $771.6 million, or nearly 3.6 percent, net assets of business-type activities decreased by $449.4 million, or about 31.9 percent. At year-end, net assets of governmental activities and business-type activities totaled $22.31 billion and $958.3 million, respectively.

— Component units reported net assets of $8.87 billion, an increase of $704.6 million or 8.6 percent from the previous year. The State's largest component unit, the University of North Carolina System, had net assets of $6.24 billion at June 30, 2003, an increase of $466 million or 8.1 percent from fiscal year 2002.

Fund Level:

— As of the close of the fiscal year, the State's General Fund reported a total fund balance deficit of $166.96 million, with reserves of $166.2 million, and an unreserved fund balance of negative $333.1 million.

— The Highway Fund and the Highway Trust Fund reported fund balances of $299.9 million and $208.2 million, respectively.

— The State's two major enterprise funds, the Unemployment Compensation Fund and the EPA Revolving Loan Fund, reported net assets of $277.5 million and $581.7 million, respectively.

State Highway System:

— The State highway system includes roadway surfaces, bridges, signage, railings, markings, traffic signals, and other structures related to the State's motor vehicle transportation system. The system includes 78,490 miles of roadway, constituting the second largest highway system in the nation. The system includes 17,250 bridges spanning 380 miles.

— For fiscal year 2003, the State reflected $12.4 billion (net of accumulated depreciation) of highway system infrastructure, an increase of $897.7 million (net) or 7.8 percent from the previous year.

Long-term Debt:

— The State's general obligation debt payable increased during the fiscal year to $4.07 billion, an increase of $599.7 million or 17.3 percent.

— The State maintained its AAA bond rating with Standard and Poor's and Fitch. In August 2002, Moody's downgraded the State's credit rating for general obligation debt from "AAA" to "Aa1", representing the first time since 1960 that North Carolina had less than a "AAA" rating.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (General Fund budgetary schedule, pension 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 and the EPA Revolving Loan Fund are the predominant business-type activities.

Discretely Presented Component Units – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 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, financial statements for major component units are presented in the notes to the financial statements (pages 129 and 130).

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 152 begins the individual fund data for the non-major funds. The State's funds are divided into three categories, governmental, proprietary, and fiduciary, and they use different accounting approaches.

Governmental funds -- Most of the State's basic services are reported in the governmental funds, which focus on how 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, special revenue, capital project, and permanent funds. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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 claims, grants, and services to the general public. The Unemployment Compensation Fund and the EPA Revolving Loan Fund are our most significant enterprise funds. 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. 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.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 62 of this report.

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 accounting 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 and for non-major discretely presented component units. 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 STATE AS A WHOLE

The State's combined net assets increased $322.2 million, or 1.4 percent over the course of this fiscal year's operations. The net assets of the governmental activities increased $771.6 million or 3.6 percent and business-type activities had a decrease of $449.4 million or 31.9 percent. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2003 and 2002
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Current and other non-current assets	$ 9,816,418	$ 9,853,413	$ 1,163,089	$ 1,661,161	$ 10,979,507	$ 11,514,574
Capital assets, net	23,727,427	22,324,253	45,428	42,498	23,772,855	22,366,751
Total assets	33,543,845	32,177,666	1,208,517	1,703,659	34,752,362	33,881,325
Long-term liabilities	4,380,170	3,711,385	10,270	10,383	4,390,440	3,721,768
Other liabilities	6,853,153	6,927,395	239,923	285,523	7,093,076	7,212,918
Total liabilities	11,233,323	10,638,780	250,193	295,906	11,483,516	10,934,686
Net assets:						
Invested in capital assets, net of related debt	23,449,373	22,009,712	38,450	38,392	23,487,823	22,048,104
Restricted	1,071,626	1,084,614	863,426	1,317,595	1,935,052	2,402,209
Unrestricted	(2,210,477)	(1,555,440)	56,448	51,766	(2,154,029)	(1,503,674)
Total net assets	$ 22,310,522	$ 21,538,886	$ 958,324	$ 1,407,753	$ 23,268,846	$ 22,946,639

The largest component of the State's net assets ($23.49 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, State highway system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net assets are the next largest component ($1.94 billion) and represent resources that are subject to external restrictions on how they can be used. The remaining portion, unrestricted net assets, consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt.*

The government-wide statement of net assets for governmental activities reflects a negative $2.21 billion unrestricted net asset balance. 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 construct new buildings and renovate and modernize existing buildings on the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the $4.07 billion of outstanding general obligation debt at June 30, 2003, $3.78 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 must 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. Additionally, as of June 30, 2003, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $274.5 million and a $20 million cost settlement payable to the federal government (see Note 22 to the financial statements). These unfunded liabilities also contribute to the negative unrestricted net asset balance for governmental activities.

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

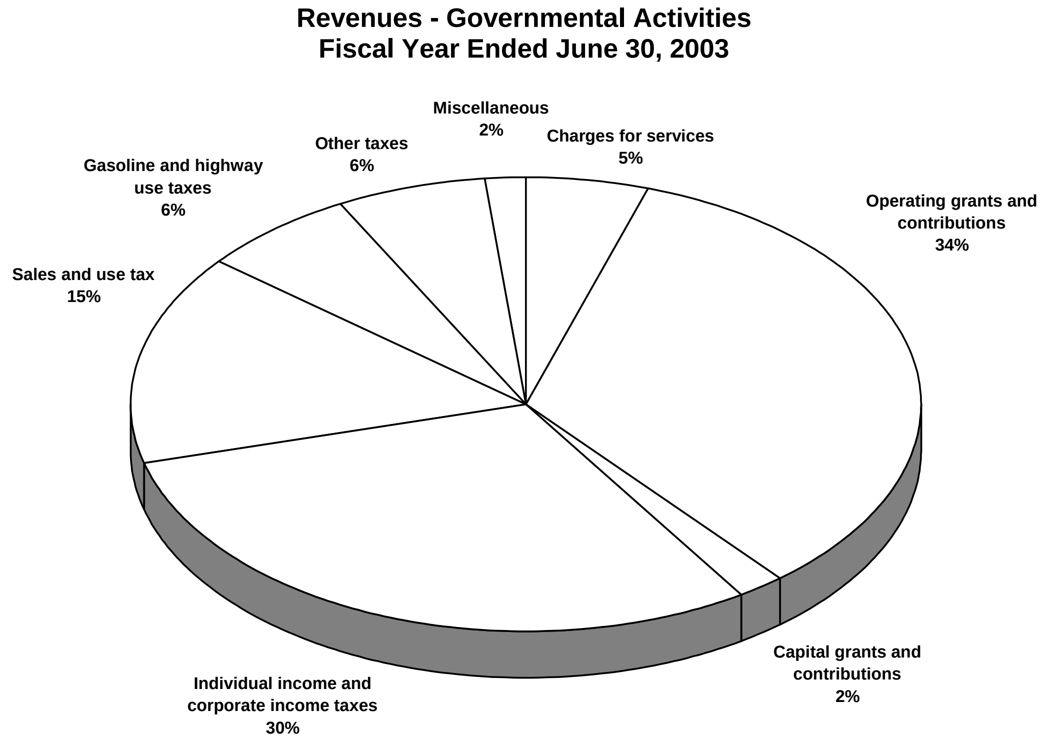
Changes in Net Assets
For the Fiscal Years Ended June 30, 2003 and 2002
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	$ 1,350,749	$ 1,301,564	$ 688,517	$ 487,443	$ 2,039,266	$ 1,789,007
Operating grants and contributions	9,043,064	8,725,315	504,550	485,492	9,547,614	9,210,807
Capital grants and contributions	527,498	714,084	1,241	1,121	528,739	715,205
General revenues:						
Taxes						
Individual income tax	7,122,099	7,234,431	—	—	7,122,099	7,234,431
Corporate income tax	921,611	599,382	—	—	921,611	599,382
Sales and use tax	4,029,403	3,778,873	—	—	4,029,403	3,778,873
Gasoline tax	1,154,986	1,212,788	—	—	1,154,986	1,212,788
Franchise tax	584,584	590,992	—	—	584,584	590,992
Highway use tax	552,759	555,320	—	—	552,759	555,320
Insurance tax	417,126	347,893	—	—	417,126	347,893
Beverage tax	198,848	200,593	—	—	198,848	200,593
Inheritance tax	112,150	106,491	—	—	112,150	106,491
Other taxes	289,261	278,740	—	—	289,261	278,740
Tobacco settlement	173,256	175,836	—	—	173,256	175,836
Federal grants not restricted to specific programs	136,859	—	—	—	136,859	—
Unrestricted investment earnings	103,987	139,350	—	—	103,987	139,350
Miscellaneous	41,137	57,484	—	—	41,137	57,484
Total revenues	26,759,377	26,019,136	1,194,308	974,056	27,953,685	26,993,192
Expenses:						
General government	773,835	874,208	—	—	773,835	874,208
Primary and secondary education	6,865,921	6,802,979	—	—	6,865,921	6,802,979
Higher education	2,814,375	2,519,703			2,814,375	2,519,703
Health and human services	10,614,411	10,376,807	—	—	10,614,411	10,376,807
Economic development	489,062	469,102	—	—	489,062	469,102
Environment and natural resources	537,540	623,351	—	—	537,540	623,351
Public safety, corrections and regulation	2,034,225	2,109,488	—	—	2,034,225	2,109,488
Transportation	1,639,866	1,530,869	—	—	1,639,866	1,530,869
Agriculture	73,972	121,729	—	—	73,972	121,729
Interest on long-term debt	151,258	148,595	—	—	151,258	148,595
Unemployment compensation	—	—	1,603,796	1,336,718	1,603,796	1,336,718
EPA Revolving Loan	—	—	4,266	4,018	4,266	4,018
Other business-type activities	—	—	30,757	25,431	30,757	25,431
Total expenses	25,994,465	25,576,831	1,638,819	1,366,167	27,633,284	26,942,998
Increase (decrease) in net assets before contributions and transfers	764,912	442,305	(444,511)	(392,111)	320,401	50,194
Contributions to permanent funds	1,806	2,019	—	—	1,806	2,019
Transfers	4,918	40,887	(4,918)	(40,887)	—	—
Increase (decrease) in net assets	771,636	485,211	(449,429)	(432,998)	322,207	52,213
Net assets - beginning - restated	21,538,886	21,053,675	1,407,753	1,840,751	22,946,639	22,894,426
Net assets - ending	$ 22,310,522	$ 21,538,886	$ 958,324	$ 1,407,753	$ 23,268,846	$ 22,946,639

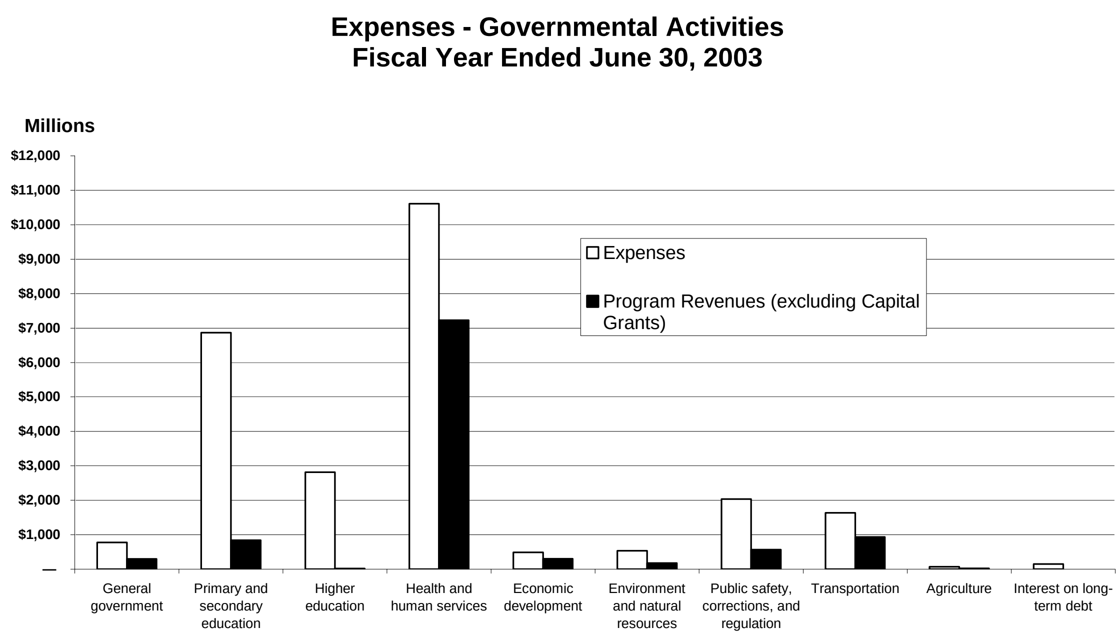
Governmental Activities

As a result of this year's operations, the net assets of governmental activities increased by $771.6 million or 3.6 percent. The net asset increase is primarily related to the receipt of federal fiscal relief in June 2003, an overall increase in tax revenues, and the State's ability to limit the growth in expenses. Total expenses of governmental activities grew by only 1.6 percent during the current period despite funding increases in the State's two largest functional areas, education and health and human services. The growth in education spending is related to enrollment increases at the State's universities and community colleges and the corresponding increases in State capital aid. The growth in health and human services is related to increased spending for the State's Medicaid program, which is the State's largest public assistance program. These funding increases were partially offset by significant spending reductions by other State agencies, which were necessary to manage a budgetary shortfall.

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

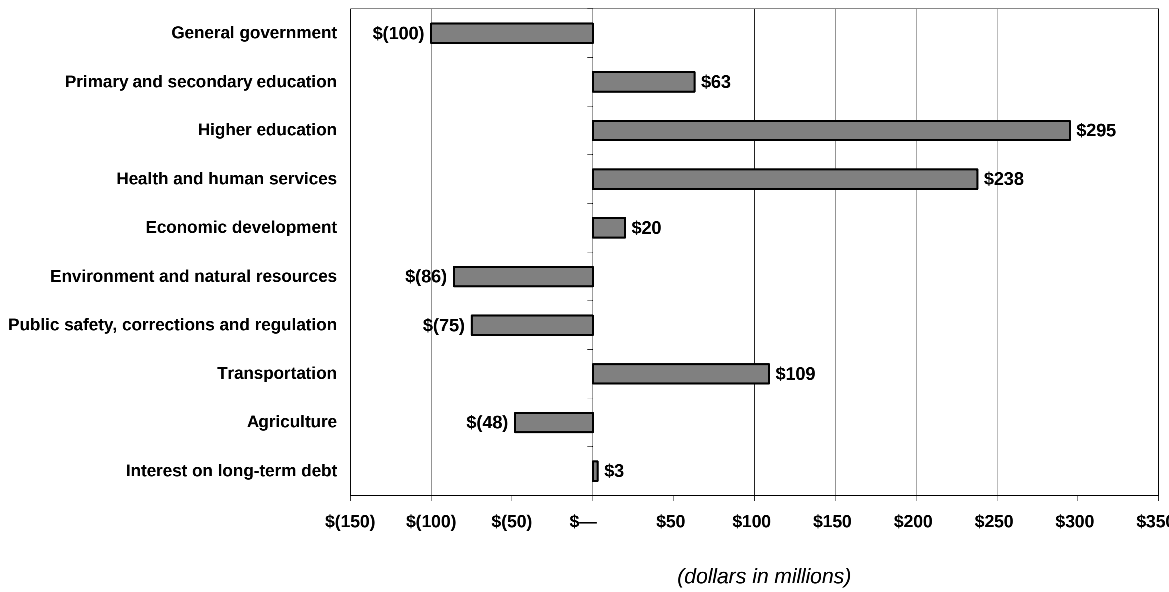


The following chart depicts the total expenses and total program revenues of the State's governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2002 and 2003:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2002 and 2003



Business-type Activities

Business-type activities reflect a decrease in net assets of $449.4 million (or 31.9 percent). The key reason for the decline was the State's high unemployment rate, resulting in the unemployment compensation fund finishing the year with a decrease in net assets of $515.6 million (or 65.0 percent). The Unemployment Compensation Fund and the EPA Revolving Loan Fund are the predominant activities, comprising 89.7 percent of the total net assets of business-type activities. Please refer to the discussion of the State's enterprise funds for a more detailed analysis of these two activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $2.64 billion, a slight increase (less than one percent) from the prior fiscal year-end (as restated). The major governmental funds are discussed individually below.

General Fund

The General Fund is the chief operating fund of the State. The fund deficit of the General Fund was reduced from $348.79 million at June 30, 2002 to $166.96 million at June 30, 2003. Key factors in reducing the deficit were higher corporate income and sales tax collections, the accelerated repeal of local government reimbursements, increased transfers from other funds, and significant spending reductions by State agencies. Additionally, the State received $136.9 million in federal fiscal relief in June 2003. A more detailed analysis of the General Fund is provided in the budgetary highlights section (see below).

2002-2003 General Fund Budgetary Highlights

The General Fund revenue forecast for fiscal year 2002-2003 was derived on the basis of a continued slow economic recovery. Accordingly, the General Assembly assumed a zero percent growth in the underlying State economic base. This conservative assumption recognized the many uncertainties facing the North Carolina economy, including the potential for further terrorist attacks and unsteady United States financial markets. Actual General Fund baseline revenue collections under the State tax laws as of January 1, 2002 increased slightly reflecting the annualization of revenue enhancements enacted by the 2001 Session of the General Assembly.

Baseline revenues alone were insufficient to continue essential State services. Consequently, the General Assembly enacted General Fund enhancements for fiscal year 2002-2003 totaling $866 million. The most significant enhancement was the accelerated repeal of the local government reimbursements ($333 million), which were payments by the State to replace revenues lost by local governments as a result of taxes repealed by the State. 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 fiscal year 2002-2003, of which $80 million was a recurring transfer and $125 million was an advance to be repaid in future years. Also, $78 million in tobacco settlement revenues accounted for in special revenue funds were transferred to the General Fund. The State's tax laws were also changed to eliminate several tax preferences. Specifically, the General Assembly took steps to ensure that businesses organized as partnerships pay the franchise tax. The General Assembly also broadened and clarified the definition of business income to minimize the ability of multi-state corporations to avoid taxes on certain income. The following table summarizes the 2003 revenue enhancements (amounts expressed in millions):

Revenue Enhancements – 2003 Fiscal Year

Repeal of local government reimbursements	$	333.4
Transfers from :		
Highway Trust Fund – nonrecurring advance		125.0
Highway Trust Fund – recurring inflation adjustment		80.0
Tobacco settlement funds – nonrecurring		78.0
Other funds - nonrecurring		20.4
Business tax revisions		90.0
Delay of individual income tax breaks		51.7
Departmental fee increases		38.2
Other		49.4
Total 2003 enhancements	$	866.1

The General Assembly reduced departmental appropriated budgets for fiscal year 2002-03 by $763 million, of which $532.5 million were recurring and $230.6 million were nonrecurring. Additional reductions in the retirement system and debt service requirements were $242.3 million, bringing total statewide reductions to over $1 billion. The reduction in debt service requirements was due in part to the savings resulting from the issuance of refunding bonds during the fiscal year. Also, based on actuarial reports, it was determined that a contribution to the State employee retirement funds was not necessary, allowing the retirement fund contribution scheduled in the 2001 Session budget to be redirected to other uses.

The State's tax and non-tax revenue shortfall for the 2002-2003 fiscal year was $221 million. The Governor, as Director of the Budget, is responsible for administering the budget enacted by the General Assembly and making sure that the budget remains balanced. In anticipation of this shortfall, the Governor provided reversion targets or spending reductions to state agencies, which provided sufficient funds to cover the budget shortfall. Additionally, the State received $136.9 million in federal fiscal relief in June 2003 (see below).

Analysis of General Fund Budget Variations

The original General Fund budget, including State appropriations and appropriations supported by departmental receipts, serves as a starting point or plan for the Governor to execute the General Fund budget pursuant to the powers granted by the Executive Budget Act. At the state level in North Carolina, it is not unusual for the budget to change during the fiscal year in relation to budget adjustments made to accommodate departmental receipts. The General Fund budget supported by State appropriation, is a subset of the General Fund financial schedule presented in the CAFR as required supplementary information. The current CAFR schedule reflects all spending required to support the State's General Fund activities and the funding to support those activities, including State tax and non-tax revenues, federal revenues, student tuition, and other fees, licenses, and fines.

Under current State budget management practice, particularly related to departmental federal receipts, primary emphasis is placed on comparisons of the final authorized budget and actual spending.

At the State level, budgetary cuts related to State appropriations are implemented by decreasing allowable actual expenditures, as opposed to decreasing the State appropriation through a formal legislative process. The Governor and State agencies maintain legal authority to spend the dollars originally appropriated to them, however, in recent years the actual spending has been limited by the collection of tax and nontax revenue. In extremely rare cases, the General Assembly has held special sessions to formally amend the State appropriation budget.

The portion of the original budget comprising departmental receipts is not intended to be the sole controlling point to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year as allowed by law. General Fund departmental receipts are typically authorized for expenditure within the activity that generated the receipt.

Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies by law must spend departmental receipts prior to spending tax and nontax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

For the fiscal year 2003, actual receipts of individual income taxes were $181.7 million (or 2.5%) below final budget amounts. Additionally, sales and use tax collections were $93.98 million (or 2.3%) below final budget amounts. By comparison, the State experienced a shortfall in tax receipts of $1.5 billion (or 10.8%) in fiscal year 2002. The shortfall in individual income and sales and use taxes for the 2003 fiscal year is attributable to the State's high unemployment rate and the slowing national and state economy. However, these shortfalls were partially offset by excess collections in other taxes (e.g., corporate income, franchise, and insurance taxes).

Federal Relief Package

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003. This legislation provided a total of $20 billion in fiscal relief to the States to be divided equally between a flexible grant and an enhancement to the federal medical assistance percentage (FMAP) for Medicaid. In June 2003, North Carolina received $136.9 million in federal funds, which was the first of two equal flexible grant payments. The second flexible grant payment of $136.9 million was received in October 2003. The flexible grant funds are available to be expended for essential government services or financing unfunded federal mandates. North Carolina's FMAP relief for federal fiscal years 2003 and 2004 is estimated to be $101.9 and $176.0 million, respectively.

Hurricane Impact

Hurricane Isabel came ashore near Ocracoke on the Outer Banks of North Carolina on September 18, 2003. The storm hammered the fragile Outer Banks and raked across the northeastern portion of the State causing widespread destruction to homes, businesses and farms. Forty-seven of the State's 100 counties were declared disaster areas. In the first six weeks following the storm, more than $73 million in federal and State disaster assistance to individuals, households, local governments and private non-profits has been approved. The federal government covers 75 percent of the costs; the State pays the other 25 percent.

2003-04 General Fund Budget

The General Fund budget for fiscal year 2003-04, was signed into law on June 30, 2003. The enacted budget was founded upon an overall nominal (real growth plus inflation) economic growth rate of 3.5 percent for 2003-04. The appropriated budget included provisions that were designed to increase General Fund revenues. The most significant revenue adjustment was the continuation of two temporary tax increases that were scheduled to expire in 2003. In 2001, the General Assembly temporarily raised the State sales tax rate by a half-cent to 4.5 percent and the highest individual income tax rate from 7.75 percent to 8.25 percent. The budget continues the State sales tax rate at 4.5 percent and the 8.25 percent income tax bracket for an additional two years. Additionally, the Department of Revenue was given broader authority and resources to collect unpaid tax liabilities.

Highway Fund

The Highway Fund accounts for most of the activities of the North Carolina Department of Transportation, including the maintenance and construction of the State's primary, secondary, and urban road systems, the State Highway Patrol, the Division of Motor Vehicles, and transit and rail. The primary revenue sources of the Highway Fund are three-fourths of gasoline taxes, vehicle registration fees, driver's license fees, and federal funds.

The fund balance of the State Highway Fund decreased from $410.2 million at June 30, 2002 to $299.9 million at June 30, 2003, a decrease of 26.9 percent. The decline was the result of total expenditures exceeding total revenues for the current period. Total revenues decreased by $54 million or 2.5 percent during fiscal year 2003, primarily because of decreases in gasoline taxes and federal funds. In addition, operating transfers from other funds decreased by $79.9 million.

Highway Trust Fund

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet highway construction needs in North Carolina. The principal revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees.

The fund balance of the Highway Trust Fund decreased from $425.99 million at June 30, 2002 to $208.2 million at June 30, 2003, a decrease of 51.1 percent. The decline was caused, in part, by an $80 million increase in the annual transfer to the General Fund (see Note 9B to the financial statements). Additionally, total revenues decreased by $45.1 million or 4.6 percent, primarily because of decreases in investment earnings and gasoline taxes. Investment earnings decreased because of reduced cash balances resulting from advances and transfers to the General Fund.

The 2003 General Assembly passed the Governor's "Moving Ahead" transportation initiative to allow, over two years, the use of $630 million of Highway Trust Fund cash balances for highway preservation, modernization, and maintenance. Additionally, it allows $70 million for public transit, rail, ferry, bicycle, and pedestrian projects.

Enterprise Funds

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

Unemployment Compensation Fund

The net assets of the Unemployment Compensation Fund decreased by $515.6 million during the current fiscal year, which is a 65 percent decrease from the prior fiscal year-end. The decline was primarily related to the significant number of plant closings and layoffs, mainly in the textile, apparel, furniture, and technology industries. Unemployment benefit expenses increased 20.2 percent in fiscal year 2003 to $1.6 billion. The operating loss (excess of operating expenses over operating income) was $956.1 million this year versus $523.8 million in 2002. The cash and investment balances decreased 91.3 percent to $58.2 million. Because of the significant reduction in cash and investment balances, it became necessary for the State to receive advances from its Federal Unemployment Account to ensure timely payment of unemployment benefits. From April to June 2003, the State received repayable advances totaling $62.8 million, which were repaid by year-end with subsequent employer contributions (see Note 6 to the financial statements). From July to September 2003, the State received additional advances totaling $61.5 million. These advances were repaid with subsequent employer contributions and the proceeds from tax anticipation notes. In September 2003, the State issued $150 million in tax anticipation notes with a maturity date of June 30, 2004. The State will use subsequent employer contributions to repay these notes (see Note 22 to the financial statements). The State has estimated that it will save millions of dollars in interest payments by selling tax anticipation notes instead of continuing to borrow from the federal government.

In fiscal years 2003 and 2002, the State also received funding for extended unemployment benefits. In March 2002, the U.S. Congress signed into law the Temporary Extended Unemployment Compensation Act of 2002. This program, which is financed entirely by federal funds, provides extended benefits to claimants who had exhausted their regular State unemployment benefits.

The 2003 Session of the General Assembly enacted legislation to help preserve the integrity of the unemployment insurance tax system. S.L. 2003-67 (Senate Bill 326) clarifies that an employer cannot avoid an undesirable unemployment insurance rate by shifting employees to a newly created company with a more desirable tax rate. This practice is known as State unemployment tax avoidance or "SUTA dumping" (i.e., since the bulk of the old company's employees are moved to a new company and the higher tax rate of the older company is "dumped").

In September 2003, North Carolina's seasonally adjusted unemployment rate was 6.4 percent, which was slightly higher than the national unemployment rate of 6.1 percent. For comparison, the State and national unemployment rates in September 2002 were 6.6 percent and 5.7 percent, respectively.

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by $61.4 million during the current fiscal year, which was an 11.8 percent increase from the prior fiscal year-end. Operating income was $8.5 million (excess of operating revenues over operating expenses). Nonoperating revenues were $45.7 million, consisting primarily of federal capitalization grants. In addition, $7.3 million of clean water bond proceeds were transferred in from special revenue funds. In previous years, the activities of this fund were accounted for in a special revenue fund (see Note 21 to the financial statements).

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2003, the State's investment in capital assets was $23.77 billion, which represents an increase of 6.3 percent from the previous fiscal year-end (see table below).

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

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	$ 7,714,059	$ 7,209,632	$ 2,563	$ 2,563	$ 7,716,622	$ 7,212,195
Buildings	1,332,508	1,329,529	13,816	14,603	1,346,324	1,344,132
Machinery and equipment	551,041	561,897	1,046	857	552,087	562,754
Infrastructure:						
State highway system	12,444,210	11,546,521	—	—	12,444,210	11,546,521
Other infrastructure	84,093	87,709	7,984	8,800	92,077	96,509
Intangible assets	105,650	106,629	—	—	105,650	106,629
Art, literature, and other artifacts	29,977	28,594	—	—	29,977	28,594
Construction in progress	1,465,889	1,453,742	20,019	15,675	1,485,908	1,469,417
Total	$ 23,727,427	$ 22,324,253	$ 45,428	$ 42,498	$ 23,772,855	$ 22,366,751
Total percent change between fiscal years 2002 and 2003	**6.3 %**		**6.9 %**		**6.3 %**	

The increase in capital assets is explained primarily by additions to construction in progress ($1.2 billion) and right-of-ways ($487 million) related to the State highway system.

The largest component of capital assets is the State highway system. The State has approximately a 78,490-mile highway system, making it the second largest State-maintained highway system in the nation. The system continues to increase as roads are widened and new roads and bridges are constructed.

In an effort to manage a budgetary shortfall for the 2002-2003 fiscal year, the Office of State Budget and Management (OSBM) reduced capital spending. OSBM halted, as necessary, capital improvement projects for which State funds had been appropriated but not placed under State contract and transferred unused capital improvement funds to the General Fund.

In July 2003, the N.C. Infrastructure Finance Corporation (i.e., a blended component unit of the State) acquired three close security correctional facilities by issuing $218.4 million in lease-purchase revenue bonds. The Department of Correction is undertaking construction initiatives to address a cell shortfall and to allow for the implementation of sentencing reform.

As further detailed in Note 19(F) to the financial statements, the State has commitments of $1.6 billion for the construction of highway infrastructure. Other commitments for the construction and improvement of State government facilities totaled $362.6 million.

More detailed information about the State's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At year-end, the State had total long-term debt outstanding of $4.10 billion, an increase of 17.6 percent from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds	$ 4,066,990	$ 3,467,325	$ —	$ —	$ 4,066,990	$ 3,467,325
Revenue bonds	—	—	9,570	9,805	9,570	9,805
Certificates of participation	17,500	—	—	—	17,500	—
Notes payable	9,629	11,753	—	—	9,629	11,753
Total	$ 4,094,119	$ 3,479,078	$ 9,570	$ 9,805	$ 4,103,689	$ 3,488,883
Total percent change between fiscal years 2002 and 2003	**17.7 %**		**(2.4)%**		**17.6 %**	

The State's general obligation bonds are secured by a pledge of the faith, credit, and taxing power of the State. The revenue bonds issued by the State are secured solely by specified revenue sources. The certificates of participation issued by the N.C. Infrastructure Finance Corporation, a blended component unit of the State, are secured solely by lease payments made by the State, and in the event of default, by a security interest in the leased facilities pursuant to a leasehold deed of trust.

During the 2003 fiscal year, the State issued $711.6 million in general obligations bonds (excluding refunding issues) and $17.5 million in certificates of participation (COPs). The new general obligation debt consisted of $25.3 million in clean water bonds, $83.0 million in natural gas bonds, and $603.3 million in public improvement bonds (consolidation of clean water bonds and higher education bonds). The proceeds of the COPs will be used to acquire, construct, and equip wildlife education centers and administrative facilities for the North Carolina Wildlife Resources Commission. In addition, the State refinanced $502.4 million of its existing debt in 2003 to improve cash flow and to take advantage of lower interest rates. By refinancing the debt, the State will reduce its future debt service payments by approximately $39.0 million over the next 16 years.

The 1999-2000 Session of The General Assembly of North Carolina authorized the issuance of up to $3.1 billion of higher education improvement bonds, which were subsequently approved by the voters of the State on November 7, 2000. The proceeds of these general obligation bonds will be used solely to construct new buildings and to renovate and modernize existing buildings on the State's 58 community college and 16 University of North Carolina campuses. These improvements are needed to meet enrollment demand and to ensure that the State's college and university buildings meet modern code requirements and are equipped to prepare graduates for twenty-first century jobs. The bond legislation passed by the General Assembly specifies the amount of bond funding that will flow to each community college and university campus. At year-end, the authorized but unissued higher education bonds were $1.99 billion.

The State obtained authorization from the General Assembly in 2003 to enter into financing agreements or special indebtedness to:

- Provide $300 million for the repair and renovation of State facilities and related infrastructure;
- Provide $110 million for the construction of a new State mental health facility, which will replace two hospitals being closed;
- Lease purchase three prison facilities;
- Acquire two private prisons that are currently being leased by the State; and
- Provide $6.8 million for the planning and design of three youth development centers and some utility infrastructure and site work.

The timing of these issues has not been determined; however, funds were provided in the biennium budget ending June 30, 2005 for debt service for the $300 million of repair and renovation special indebtedness. The use of alternative financing methods, which do not require voter approval, will provide financing flexibility to the State and will permit the State to take advantage of changing financial and economic environments.

Credit Ratings

The State's general obligation bonds are rated "AAA" by Standard & Poor's and Fitch and "Aa1" by Moody's. In August 2002, Moody's downgraded the State's credit rating for general obligation debt from "AAA" to "Aa1", representing the first time since 1960 that North Carolina had less than a "AAA" rating. While Moody's praised the strength of executive powers available to insure a balanced budget, it advised that 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 certificates of participation issued by the North Carolina Infrastructure Finance Corporation are rated "AA+" by Standard & Poor's, "AA" by Fitch, and "Aa2" by Moody's.

Limitations on Debt

The Constitution of North Carolina (Article 5, Section 3) imposes limitations on the increase of State debt. It restricts the General Assembly from contracting a debt secured by a pledge of the faith and credit of the State, unless approved by a majority of the qualified voters of the State, except for the following purposes:

1. To fund or refund a valid existing debt;
2. To supply an unforeseen deficiency in the revenue;
3. To borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50 percent of such taxes;
4. To suppress riots or insurrections; or to repel invasions;
5. To meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
6. For any other lawful purpose, to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the next preceding biennium.

More detailed information about the State's long-term liabilities is presented in Note 7 to the financial statements.

Requests for Information

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

Basic Financial Statements

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2003 *Exhibit A-1*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents (Note 3)	$ 3,423,365	$ 264,767	$ 3,688,132	$ 2,467,970
Investments (Note 3)	503,073	37,898	540,971	1,738,006
Securities lending collateral (Note 3)	3,484,980	188,116	3,673,096	—
Receivables, net (Note 4)	1,872,400	258,837	2,131,237	573,368
Due from component units (Note 17)	8,647	—	8,647	4,132
Due from primary government (Note 17)	—	—	—	177,835
Internal balances	(36)	36	—	—
Inventories	146,601	456	147,057	65,891
Prepaid items	9,271	2,543	11,814	7,987
Advances to component units	24,242	—	24,242	—
Notes receivable (Note 4)	244,081	410,313	654,394	2,635,171
Endowment investments (Note 3)	59,494	—	59,494	1,147,380
Deferred charges	—	123	123	17,992
Securities held in trust	40,269	—	40,269	—
Pension assets (Note 11)	31	—	31	—
Capital assets-nondepreciable (Note 5)	9,209,925	22,582	9,232,507	1,349,044
Capital assets-depreciable, net (Note 5)	14,517,502	22,846	14,540,348	4,391,490
Total Assets	33,543,845	1,208,517	34,752,362	14,576,266
LIABILITIES				
Accounts payable and accrued liabilities	1,112,441	22,909	1,135,350	463,813
Medical claims payable	732,304	—	732,304	5,649
Unemployment benefits payable	—	12,368	12,368	—
Tax refunds payable	960,104	—	960,104	—
Obligations under securities lending	3,484,980	188,116	3,673,096	—
Interest payable	44,474	27	44,501	20,773
Short-term debt (Note 6)	—	—	—	19,000
Due to component units (Note 17)	177,835	—	177,835	4,132
Due to primary government (Note 17)	—	—	—	8,647
Unearned revenue	258,943	16,385	275,328	103,529
Advance from primary government	—	—	—	34,251
Obligations under reverse repurchase agreements	—	—	—	106,709
Deposits payable	58	118	176	10,268
Funds held for others	82,014	—	82,014	563,245
Long-term liabilities (Note 7):				
Due within one year	273,361	315	273,676	219,718
Due in more than one year	4,106,809	9,955	4,116,764	4,150,789
Total Liabilities	11,233,323	250,193	11,483,516	5,710,523
NET ASSETS				
Invested in capital assets, net of related debt	23,449,373	38,450	23,487,823	4,312,035
Restricted for:				
Nonexpendable				
Environment and natural resources	52,230	—	52,230	—
Higher education	582	—	582	642,973
Health and human services	200	—	200	—
Expendable				
Higher education	399,574	—	399,574	1,899,134
Health and human services	49,228	—	49,228	3,118
Economic development	39,264	—	39,264	255,530
Environment and natural resources	34,308	—	34,308	—
Public safety, corrections, and regulation	63,055	—	63,055	—
Transportation	360,042	—	360,042	—
Unemployment compensation	—	277,480	277,480	—
EPA revolving loan	—	581,678	581,678	—
Other purposes	73,143	4,268	77,411	1,065
Unrestricted	(2,210,477)	56,448	(2,154,029)	1,751,888
Total Net Assets	$ 22,310,522	$ 958,324	$ 23,268,846	$ 8,865,743

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, 2003

(Dollars in Thousands)

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government	$ 773,835	$ 162,311	$ 134,135	$ 1,390	$ (475,999)
Primary and secondary education	6,865,921	11,876	828,422	400	(6,025,223)
Higher education	2,814,375	425	18,759	—	(2,795,191)
Health and human services	10,614,411	151,108	7,080,869	11	(3,382,423)
Economic development	489,062	32,099	273,875	—	(183,088)
Environment and natural resources	537,540	97,422	81,489	26,685	(331,944)
Public safety, corrections, and regulation	2,034,225	355,793	207,766	18,995	(1,451,671)
Transportation	1,639,866	526,609	406,002	477,640	(229,615)
Agriculture	73,972	13,106	11,747	2,377	(46,742)
Interest on long-term debt	151,258	—	—	—	(151,258)
Total Governmental Activities	25,994,465	1,350,749	9,043,064	527,498	(15,073,154)
Business-type Activities:					
Unemployment Compensation	1,603,796	646,273	452,635	—	(504,888)
EPA Revolving Loan	4,266	12,550	45,896	—	54,180
Other business-type activities	30,757	29,694	6,019	1,241	6,197
Total Business-type Activities	1,638,819	688,517	504,550	1,241	(444,511)
Total Primary Government	$ 27,633,284	$ 2,039,266	$ 9,547,614	$ 528,739	$ (15,517,665)
Component Units:					
Golden LEAF Foundation	$ 18,325	$ —	$ 11,592	$ —	$ (6,733)
University of North Carolina System	5,305,778	3,105,445	525,884	74,472	(1,599,977)
Community Colleges	1,240,257	233,766	377,875	69,957	(558,659)
N.C. Housing Finance Agency	219,038	225,959	—	—	6,921
N.C. State Education Assistance Authority	112,053	58,939	34,188	—	(18,926)
Other component units	180,843	41,362	9,031	1,565	(128,885)
Total Component Units	$ 7,076,294	$ 3,665,471	$ 958,570	$ 145,994	$ (2,306,259)

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, 2003 *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (expense) revenue	$ (15,073,154)	$ (444,511)	$ (15,517,665)	$ (2,306,259)
General Revenues:				
Taxes				
Individual income tax	7,122,099	—	7,122,099	—
Corporate income tax	921,611	—	921,611	—
Sales and use tax	4,029,403	—	4,029,403	—
Gasoline tax	1,154,986	—	1,154,986	—
Franchise tax	584,584	—	584,584	—
Highway use tax	552,759	—	552,759	—
Insurance tax	417,126	—	417,126	—
Beverage tax	198,848	—	198,848	—
Inheritance tax	112,150	—	112,150	—
Other taxes	289,261	—	289,261	—
Tobacco settlement	173,256	—	173,256	—
Federal grants not restricted to specific programs	136,859	—	136,859	—
Unrestricted investment earnings	103,987	—	103,987	—
State operating aid	—	—	—	2,507,308
State capital aid	—	—	—	469,558
Miscellaneous	41,137	—	41,137	5,224
Contributions to permanent funds	1,806	—	1,806	—
Contributions to endowments	—	—	—	28,767
Transfers	4,918	(4,918)	—	—
Total general revenues and transfers	15,844,790	(4,918)	15,839,872	3,010,857
Change in net assets	771,636	(449,429)	322,207	704,598
Net assets — July 1, as restated (Note 21)	21,538,886	1,407,753	22,946,639	8,161,145
Net assets — June 30	$ 22,310,522	$ 958,324	$ 23,268,846	$ 8,865,743

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2003 *Exhibit B-1*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Note 3)	$ 1,028,057	$ 413,167	$ 189,807	$ 1,728,524	$ 3,359,555
Investments (Note 3)	1,925	—	—	481,516	483,441
Securities lending collateral (Note 3)	2,119,153	351,021	153,467	839,645	3,463,286
Receivables, net: (Note 4					
Taxes receivable	827,616	81,688	28,496	2,160	939,960
Accounts receivable	142,845	3,246	326	27,884	174,301
Intergovernmental receivable	680,934	6,000	505	7,345	694,784
Interest receivable	7,408	1,225	455	5,582	14,670
Contributions receivable	20,744	—	—	—	20,744
Other receivables	—	9,987	—	15	10,002
Due from fiduciary funds (Note 4)	2	—	—	—	2
Due from other funds (Note 9)	215	57,946	166	39,700	98,027
Due from component units (Note 17)	3,406	—	—	4,280	7,686
Inventories	55,396	66,749	—	24,197	146,342
Prepaid items	—	—	—	71	71
Advances to other funds (Note 9)	—	—	129,722	—	129,722
Advances to component units	—	—	—	24,242	24,242
Notes receivable (Note 4)	1,892	137	—	242,052	244,081
Securities held in trust	603	3,820	—	35,846	40,269
Endowment investments (Note 3)	—	—	—	59,494	59,494
Total Assets	$ 4,890,196	$ 994,986	$ 502,944	$ 3,522,553	$ 9,910,679
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities					
Accounts payable	$ 74,160	$ 162,898	$ 51,645	$ 83,902	$ 372,605
Accrued payroll	5,079	29,547	—	1,256	35,882
Intergovernmental payable	536,437	89,914	32,188	9,734	668,273
Claims payable	—	—	—	24,305	24,305
Medical claims payable	732,304	—	—	—	732,304
Tax refunds payable	960,104	—	—	—	960,104
Obligations under securities lending	2,119,153	351,021	153,467	839,645	3,463,286
Interest payable	694	—	—	—	694
Due to fiduciary funds (Note 9)	6,349	—	—	—	6,349
Due to other funds (Note 9)	15,960	8,291	54,946	35,367	114,564
Due to component units (Note 17)	3,146	—	—	174,689	177,835
Deferred revenue	475,608	5,844	2,526	19,523	503,501
Advance from other funds (Note 9)	127,375	2,347	—	—	129,722
Deposits payable	51	—	—	7	58
Funds held for others	731	45,204	—	36,079	82,014
Total Liabilities	5,057,151	695,066	294,772	1,224,507	7,271,496
Fund Balances:					
Reserved (Note 10)	166,172	50,425	—	622,228	838,825
Unreserved, reported in					
General Fund	(333,127)	—	—	—	(333,127)
Special Revenue Funds	—	249,495	208,172	1,584,238	2,041,905
Capital Projects Funds	—	—	—	84,677	84,677
Permanent Funds	—	—	—	6,903	6,903
Total Fund Balance	(166,955)	299,920	208,172	2,298,046	2,639,183
Total Liabilities and Fund Balances	$ 4,890,196	$ 994,986	$ 502,944	$ 3,522,553	$ 9,910,679

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, 2003 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 2,639,183
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
- **Capital assets** used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds)	$ 29,606,611	
Less: Accumulated depreciation (excluding internal service funds)	(5,969,154)	
Net capital assets		23,637,457
- **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.		247,047
- **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 11).		31
- **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 7). Also, unamortized debt premiums, discounts, and losses on refundings are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable	(4,066,990)	
Certificates of participation payable	(17,500)	
Unamortized debt premiums (to be amortized as interest expense)	(34,753)	
Less: Unamortized debt discounts (to be amortized as interest expense)	2,362	
Less: Unamortized loss on refunding (to be amortized as interest expense)	53,778	
Notes payable	(9,629)	
Capital leases payable	(322)	
Net long-term debt		(4,073,054)
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 7 as applicable) consist of:		
Accrued interest payable	(43,780)	
Compensated absences (excluding internal service funds)	(271,733)	
Obligations for workers compensation	(6,819)	
Arbitrage rebate payable	(1,077)	
Deferred death benefit payable	(105)	
Cost settlement payable	(20,000)	
Net pension obligation	(4,656)	
Total other liabilities		(348,170)
- **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).		208,028
Total net assets - governmental activities (see Exhibit A-1)		$ 22,310,522

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, 2003 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax	$ 7,126,655	$ —	$ —	$ 486	$ 7,127,141
Corporate income tax	922,936	—	—	—	922,936
Sales and use tax	4,020,923	—	—	13,914	4,034,837
Gasoline tax	—	846,170	281,312	26,848	1,154,330
Franchise tax	583,781	—	—	—	583,781
Highway use tax	—	—	552,759	—	552,759
Insurance tax	408,873	—	—	8,253	417,126
Beverage tax	198,848	—	—	—	198,848
Inheritance tax	112,605	—	—	—	112,605
Other taxes	181,519	—	—	108,142	289,661
Federal funds	7,564,627	802,414	—	305,024	8,672,065
Local funds	562,498	9,205	107	14,828	586,638
Investment earnings	139,140	47,339	15,006	118,538	320,023
Interest earnings on loans	—	—	—	7,165	7,165
Sales and services	61,514	4,515	—	118,710	184,739
Rental and lease of property	6,232	11,837	1,003	3,103	22,175
Fees, licenses, and fines	269,962	414,711	91,097	139,610	915,380
Tobacco settlement	173,256	—	—	—	173,256
Contributions, gifts, and grants	29,703	4,272	54	56,457	90,486
Funds escheated	—	—	—	41,369	41,369
Federal funds for fiscal relief	136,859	—	—	—	136,859
Miscellaneous	116,471	13,138	948	17,220	147,777
Total revenues	22,616,402	2,153,601	942,286	979,667	26,691,956
Expenditures:					
Current:					
General government	643,209	—	—	48,058	691,267
Primary and secondary education	6,686,832	—	—	176,506	6,863,338
Higher education	2,341,714	—	—	471,915	2,813,629
Health and human services	10,520,476	—	—	62,708	10,583,184
Economic development	177,389	—	—	306,909	484,298
Environment and natural resources	197,894	—	—	336,511	534,405
Public safety, corrections, and regulation	1,694,592	—	—	303,984	1,998,576
Transportation	—	2,383,447	584,104	—	2,967,551
Agriculture	73,067	—	—	8,790	81,857
Capital outlay	—	—	—	104,379	104,379
Debt service:					
Principal retirement	151,334	—	16,675	—	168,009
Interest and fees	143,429	—	8,681	—	152,110
Debt issuance costs	1,262	—	—	148	1,410
Total expenditures	22,631,198	2,383,447	609,460	1,819,908	27,444,013
Excess revenues over (under) expenditures	(14,796)	(229,846)	332,826	(840,241)	(752,057)
Other Financing Sources (Uses):					
Bonds issued	—	—	—	711,600	711,600
Certificates of participation issued	—	—	—	17,500	17,500
Refunding bonds issued	556,350	—	—	—	556,350
Premium on debt issued	2,780	—	—	22,237	25,017
Discount on debt issued	(226)	—	—	(28)	(254)
Payment to refunded bond escrow agent	(558,444)	—	—	—	(558,444)
Capital leases	150	—	—	—	150
Sale of capital assets	2,608	1,536	390	4,348	8,882
Transfers in (Note 9)	538,241	320,990	—	728,157	1,587,388
Transfers out (Note 9)	(356,462)	(202,265)	(551,029)	(473,319)	(1,583,075)
Total other financing sources (uses)	184,997	120,261	(550,639)	1,010,495	765,114
Net change in fund balances	170,201	(109,585)	(217,813)	170,254	13,057
Fund balances — July 1, as restated (Note 21)	(348,788)	410,177	425,985	2,130,928	2,618,302
Increase (decrease) in reserve for related assets	11,632	(672)	—	(3,136)	7,824
Fund balances — June 30	$ (166,955)	$ 299,920	$ 208,172	$ 2,298,046	$ 2,639,183

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, 2003 *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ 13,057
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)	$ 1,927,442	
Less: Depreciation expense	(501,014)	
Net capital outlay adjustment		1,426,428
- **Proceeds from the sale of capital assets** increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.		(25,912)
- **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds and similar debt issued	(729,100)	
Refunding bonds issued	(556,350)	
Capital lease financings	(150)	
Premiums on debt issued	(24,177)	
Principal repayments:		
Bonds, notes, and similar debt	168,009	
Capital leases	44	
Payments to escrow agent for refundings	558,444	
Net debt adjustments		(583,280)
- **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.		18,261
- **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	118	
Compensated absences (excluding internal service funds)	(64,381)	
Workers compensation	326	
Arbitrage rebate	210	
Deferred death benefit	65	
Cost settlement	(20,000)	
Net pension obligation	(887)	
Amortization of deferred amounts	148	
Net expense accruals		(84,401)
- **Inventories** of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.		7,824
- **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).		(341)
Change in net assets - governmental activities (see Exhibit A-2)		$ 771,636

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2003 — *Exhibit B-3*

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 3)	$ 58,182	$ 168,883	$ 34,026	$ 261,091	$ 63,810
Restricted cash and cash equivalents (Note 3)	—	—	2	2	—
Investments (Note 3)	—	—	32,101	32,101	19,632
Restricted investments (Note 3)	—	—	876	876	—
Securities lending collateral (Note 3)	13,418	137,324	37,374	188,116	21,694
Receivables: (Note 4					
Accounts receivable, net	18,362	—	725	19,087	17,880
Intergovernmental receivables	3,559	39	—	3,598	—
Interest receivable	51	2,619	74	2,744	54
Premiums receivable	—	—	1,643	1,643	—
Contributions receivable, net	231,687	—	78	231,765	—
Notes receivable (Note 4)	—	24,159	—	24,159	—
Due from fiduciary funds (Note 4)	—	—	—	—	3
Due from other funds (Note 9)	42	—	—	42	18,638
Due from component units (Note 17)	—	—	—	—	961
Inventories	—	—	456	456	259
Prepaid items	—	—	2,543	2,543	9,200
Total current assets	325,301	333,024	109,898	768,223	152,131
Noncurrent Assets:					
Restricted/designated cash and cash equivalents (Note 3)	—	—	3,674	3,674	—
Restricted investments (Note 3)	—	—	4,921	4,921	—
Notes receivable (Note 4)	—	386,154	—	386,154	—
Deferred charges	—	—	123	123	—
Capital assets-nondepreciable (Note 5)	—	—	22,582	22,582	3,298
Capital assets-depreciable, net (Note 5)	—	128	22,718	22,846	86,672
Total noncurrent assets	—	386,282	54,018	440,300	89,970
Total Assets	325,301	719,306	163,916	1,208,523	242,101
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities					
Accounts payable	7,153	40	1,189	8,382	3,258
Accrued payroll	—	—	76	76	573
Intergovernmental payable	1,653	—	—	1,653	—
Claims payable	2,752	—	10,046	12,798	1,196
Unemployment benefits payable	12,368	—	—	12,368	—
Obligations under securities lending	13,418	137,324	37,374	188,116	21,694
Interest payable	—	—	27	27	—
Due to other funds (Note 9)	—	—	6	6	2,137
Deferred revenue	10,477	—	5,908	16,385	2,489
Deposits payable	—	—	118	118	—
Bonds payable - current	—	—	245	245	—
Accrued vacation leave - current	—	24	46	70	199
Total current liabilities	47,821	137,388	55,035	240,244	31,546
Noncurrent Liabilities:					
Bonds payable, net	—	—	9,325	9,325	—
Accrued vacation leave	—	240	390	630	2,527
Total noncurrent liabilities	—	240	9,715	9,955	2,527
Total Liabilities	47,821	137,628	64,750	250,199	34,073
NET ASSETS					
Invested in capital assets, net of related debt	—	—	38,450	38,450	89,970
Restricted for:					
Capital outlay	—	—	4,268	4,268	—
Unrestricted	277,480	581,678	56,448	915,606	118,058
Total Net Assets	$ 277,480	$ 581,678	$ 99,166	$ 958,324	$ 208,028

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, 2003 *Exhibit B-4*

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues:					
Employer unemployment contributions	$ 628,866	$ —	$ —	$ 628,866	$ —
Federal funds	17,407	—	—	17,407	—
Sales and services	—	1,725	1,171	2,896	208,576
Sales and services used as security for bonds, net	—	—	3,936	3,936	—
Interest earnings on loans	—	10,825	—	10,825	—
Rental and lease earnings	—	—	4,614	4,614	910
Fees, licenses and fines	—	—	7,731	7,731	—
Insurance premiums	—	—	12,076	12,076	15,536
Miscellaneous	—	—	166	166	366
Total operating revenues	646,273	12,550	29,694	688,517	225,388
Operating Expenses:					
Personal services	—	2,698	7,274	9,972	39,023
Supplies and materials	—	20	883	903	8,212
Services	—	869	6,250	7,119	88,572
Cost of goods sold	—	—	421	421	1,593
Depreciation/amortization	—	13	1,648	1,661	27,107
Claims	—	—	8,084	8,084	1,619
Unemployment benefits	1,602,391	—	—	1,602,391	—
Insurance and bonding	—	—	4,179	4,179	21,304
Other	—	433	1,371	1,804	42,616
Total operating expenses	1,602,391	4,033	30,110	1,636,534	230,046
Operating income (loss)	(956,118)	8,517	(416)	(948,017)	(4,658)
Nonoperating Revenues (Expenses):					
Noncapital grants	433,151	39,436	—	472,587	—
Noncapital gifts	—	—	212	212	—
Investment earnings	19,484	6,460	5,798	31,742	3,791
Interest and fees	—	—	(110)	(110)	—
Insurance recoveries	—	—	—	—	154
Grants, aid and subsidies	—	—	(70)	(70)	—
Gain (loss) on sale of equipment	—	—	(1)	(1)	(821)
Miscellaneous	(1,405)	(233)	(457)	(2,095)	(348)
Total nonoperating revenues (expenses)	451,230	45,663	5,372	502,265	2,776
Income (loss) before contributions and transfers	(504,888)	54,180	4,956	(445,752)	(1,882)
Capital contributions	—	—	1,241	1,241	936
Transfers in (Note 9)	571	7,346	2,043	9,960	678
Transfers out (Note 9)	(11,321)	(131)	(3,426)	(14,878)	(73)
Change in net assets	(515,638)	61,395	4,814	(449,429)	(341)
Net assets — July 1, as restated (Note 21)	793,118	520,283	94,352	1,407,753	208,369
Net assets — June 30	$ 277,480	$ 581,678	$ 99,166	$ 958,324	$ 208,028

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, 2003

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities:					
Receipts from customers	$ 573,728	$ 1,726	$ 29,417	$ 604,871	$ 58,955
Receipts from federal agencies	15,465	—	—	15,465	—
Receipts from other funds	—	—	554	554	171,432
Payments to suppliers	—	(1,314)	(12,862)	(14,176)	(155,428)
Payments to employees	—	(2,646)	(7,193)	(9,839)	(38,093)
Payments for benefits and claims	(1,641,942)	—	(6,160)	(1,648,102)	(562)
Payments to other funds	—	—	(266)	(266)	(11,616)
Loan issuances	—	(60,493)	—	(60,493)	—
Loan repayments — interest	—	10,874	—	10,874	—
Loan repayments — principal	—	23,896	—	23,896	—
Other receipts (payments)	—	—	(86)	(86)	(58)
Net cash flows provided (used) by operating activities	(1,052,749)	(27,957)	3,404	(1,077,302)	24,630
Cash Provided From (Used For) Noncapital Financing Activities:					
Grants	433,151	39,500	(70)	472,581	—
Transfers from other funds	538	7,346	2,043	9,927	678
Transfers to other funds	(11,714)	(131)	(3,426)	(15,271)	(73)
Gifts	—	—	212	212	—
Total cash provided from (used for) noncapital financing activities	421,975	46,715	(1,241)	467,449	605
Cash Provided From (Used For) Capital Financing Activities:					
Acquisition and construction of capital assets	—	(15)	(3,421)	(3,436)	(32,211)
Proceeds from the sale of capital assets	—	—	21	21	2,415
Capital contributions	—	—	1,241	1,241	—
Principal paid on capital debt	—	—	(235)	(235)	—
Interest paid on capital debt	—	—	(431)	(431)	—
Payment to bond escrow agent	—	—	(47)	(47)	—
Insurance recoveries	—	—	—	—	154
Total cash provided from (used for) capital financing activities	—	(15)	(2,872)	(2,887)	(29,642)
Cash Provided From (Used For) Investment Activities:					
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	6,558	6,558	—
Purchase of non-State Treasurer investments	—	—	(4,184)	(4,184)	—
Redemptions from State Treasurer investment pool	—	—	—	—	4,000
Investment earnings	18,883	6,285	947	26,115	845
Total cash provided from (used for) investment activities	18,883	6,285	3,321	28,489	4,845
Net increase (decrease) in cash and cash equivalents	(611,891)	25,028	2,612	(584,251)	438
Cash and cash equivalents at July 1	670,073	143,855	35,090	849,018	63,372
Cash and cash equivalents at June 30	$ 58,182	$ 168,883	$ 37,702	$ 264,767	$ 63,810

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, 2003 *Exhibit B-5*

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan 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)	$ (956,118)	$ 8,517	$ (416)	$ (948,017)	$ (4,658)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	13	1,648	1,661	27,107
Mortgage/loan/note principal repayments	—	23,896	—	23,896	—
Mortgages/loans/notes issued	—	(60,493)	—	(60,493)	—
Restatements and adjustments to cash	—	—	1,327	1,327	—
Nonoperating miscellaneous income/expense	—	—	9	9	3
(Increases) decreases in assets:					
Receivables	(59,036)	50	(326)	(59,312)	6,268
Due from other funds	—	—	—	—	(1,610)
Due from fiduciary funds	—	—	—	—	5
Due from component units	—	—	—	—	670
Inventories	—	—	(40)	(40)	19
Prepaid items	—	—	(23)	(23)	(2,292)
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	3,564	8	43	3,615	1,520
Due to other funds	—	—	—	—	(2,572)
Due to component units	—	—	—	—	(601)
Unemployment benefits payable	(41,526)	—	—	(41,526)	—
Accrued vacation leave	—	52	69	121	822
Deferred revenue	367	—	1,136	1,503	(51)
Deposits payable	—	—	(23)	(23)	—
Total cash provided from (used for) operations	$ (1,052,749)	$ (27,957)	$ 3,404	$(1,077,302)	$ 24,630
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio	$ —	$ —	$ 2,609	2,609	$ 1,596
Donated assets (fair market value)	—	—	—	—	936
Change in construction in progress as a result of accrual of accounts payable	—	—	851	851	—
Assets acquired through the assumption of a liability	13,418	137,324	37,374	188,116	21,694
Change in fair value of investments	—	—	1,738	1,738	862

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2003 *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)	$ 453,674	$ 55,203	$ 97,762	$ 2,807,251
Investments (Note 3)				
Annuity contracts	270,731	—	—	—
Bank investment contracts	381,473	—	—	—
U.S. Government securities	—	—	2,913	—
State and municipal securities	—	—	590	—
Mutual funds	1,613,127	—	—	—
Certificates of deposit	—	—	62,765	462
State Treasurer investment pool	56,309,896	504,086	—	62,970
Securities lending collateral (Note 3)	13,955,479	457,783	549	1,837,293
Receivables				
Taxes receivable	—	—	—	106,500
Accounts receivable	6,648	—	—	856
Intergovernmental receivables	—	—	—	1,051
Interest receivable	2,951	4,685	2	6,643
Contributions receivable	98,571	—	—	—
Due from other funds (Note 9)	—	—	—	6,349
Notes receivable	115,440	—	—	—
Inventories	—	—	—	301
Sureties	—	—	666,863	34,906
Capital assets-depreciable, net (Note 5)	1	—	—	—
Total Assets	73,207,991	1,021,757	831,444	4,864,582
Liabilities:				
Accounts payable and accrued liabilities				
Accounts payable	17,376	—	—	1,034
Intergovernmental payables	—	—	—	623,646
Benefits payable	289,865	—	—	—
Distributions payable	—	1,733	—	—
Medical claims payable	156,752	—	—	—
Obligations under securities lending	13,955,479	457,783	549	1,837,293
Due to other funds (Note 9)	5	—	—	—
Deferred revenue	22,240	—	—	—
Deposits payable	—	—	—	1,738
Funds held for others	—	—	—	2,400,871
Accrued vacation leave	44	—	—	—
Total Liabilities	14,441,761	459,516	549	4,864,582
Net Assets:				
Held in trust for:				
Employees' pension and other benefits	58,766,230	—	—	—
Pool participants	—	562,241	—	—
Individuals, organizations and other governments	—	—	830,895	—
Total Net Assets	$ 58,766,230	$ 562,241	$ 830,895	$ —

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, 2003 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions:			
Contributions:			
Employer	$ 1,546,249	$ —	$ —
Members	1,384,065	—	—
Trustee deposits	—	—	256,513
Other contributions	15,184	—	—
Total contributions	2,945,498	—	256,513
Investment income			
Investment earnings (loss)	3,790,158	28,190	2,944
Less investment expenses	(218,366)	(6,154)	(7)
Net investment income (loss)	3,571,792	22,036	2,937
Pool share transactions			
Reinvestment of dividends	—	22,324	—
Net share purchases/(redemptions)	—	7,669	—
Net pool share transactions	—	29,993	—
Other additions:			
Fees, licenses and fines	8,434	—	—
Interest earnings on loans	7,650	—	—
Miscellaneous	1,466	—	—
Total other additions	17,550	—	—
Total additions	6,534,840	52,029	259,450
Deductions:			
Claims and benefits	4,055,663	—	—
Refund of contributions	118,020	—	—
Distributions paid and payable	—	22,036	—
Payments in accordance with trust arrangements	—	—	150,288
Administrative expenses	60,926	—	6
Other deductions	136	—	—
Total deductions	4,234,745	22,036	150,294
Change in net assets	2,300,095	29,993	109,156
Net assets — July 1	56,466,135	532,248	721,739
Net assets — June 30	$ 58,766,230	$ 562,241	$ 830,895

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

NOTES TO THE FINANCIAL STATEMENTS

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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. Financial accountability also exists when an organization is fiscally dependent upon the State. The State's defined benefit pension plans, deferred compensation plans, and other employee benefit plans, being fiduciary in nature, were not evaluated as potential component units but instead are reported as fiduciary funds.

The State's component units are either blended or discretely presented. The blended component unit is so intertwined with the State that it is, in substance, the same as the State and, therefore, is reported as if it was part of the State primary government. The "Component Units" column in the accompanying financial statements include the financial data of the State's discretely presented component units. They are combined and reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the State.

Blended Component Unit

The North Carolina Infrastructure Finance Corporation

The North Carolina Infrastructure Finance Corporation (Corporation) was created by the General Assembly and organized as a separate not-for-profit corporation. It is managed by a three-member board appointed by the State Treasurer. The Corporation is authorized to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of State facilities and related infrastructure. The debt obligations are secured by lease agreements with the State, which constitute the imposition of a financial burden on the State. The substance of the lease agreements is that the assets and debt are those of the State (lessee). The Corporation is reported with the State's governmental funds since it provides services entirely to the State.

Discretely Presented Component Units - Major

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

The Golden LEAF, Inc. (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

NOTES TO THE FINANCIAL STATEMENTS

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. 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.

Discretely Presented Component Units - Other

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.

NOTES TO THE FINANCIAL STATEMENTS

North Carolina Railroad Company

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

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.

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

The Golden LEAF, Inc.
800 Tiffany Boulevard, Suite 200
Rocky Mount, NC 27804

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

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

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

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

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

The North Carolina Infrastructure Finance Corporation does not issue separate financial statements.

B. Basis of Presentation

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. 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, 2003, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2002, 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, 2002. Occupational licensing boards have financial statements with various fiscal year ending dates.

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The State reports the following major governmental funds:

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

Highway Fund
This fund accounts for most of the activities of the Department of Transportation, including the construction and maintenance of the State 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 construction and supplemental assistance to municipalities for local street projects. The fund also makes transfers to the General Fund and the Highway Fund. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise funds:

Unemployment Compensation Fund

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

EPA Revolving Loan Fund

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

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' 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. Certain component units of the State deposit funds with the State Treasurer's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund. Additional disclosures about the State Treasurer's securities lending transactions are provided in Note 3.

G. Receivables and Payables

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

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

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

H. Inventories and Prepaid Items

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

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

NOTES TO THE FINANCIAL STATEMENTS

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. 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 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:

Asset Class	Method	Estimated Useful Life
Buildings	Straight-line	10-50 years
Machinery and Equipment	Straight-line	2-25 years
	Units of output for motor vehicles	90,000 miles
Intangible assets	Straight-line	2-40 years
Art, literature, and other artifacts	Straight-line	2-25 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. Losses on the State's refundings are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method. Losses on refundings of the NC Housing Finance Agency are deferred and amortized using the straight-line method. Debt premiums, discounts, and losses on refundings of the University of North Carolina System (component unit) are generally deferred and amortized using the straight-line method, 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 generally 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.

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

N. Sureties

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

O. Net Assets/Fund Balance

Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions 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 10, 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.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Net Assets / Fund Balance Deficit

Primary Government

At June 30, 2003, the General Fund has a fund balance deficit of $166.955 million, compared to a deficit balance of $348.551 million the previous year. The slowdown in the economy has lead to a decline in the rate of growth in taxes and an increase in spending for governmental services.

At June 30, 2003, the following special revenue fund reported a fund balance deficit: Leaking Petroleum Underground Storage Tank Cleanup Fund, $7.3 million.

At June 30, 2003, the following internal service fund reported a net assets deficit: Courier Service, $538 thousand.

At June 30, 2003, the following pension and other employee benefit trust fund reported a net assets deficit: State Health Plan, $69.432 million.

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.

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

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.

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, 2003

Assets:	
Cash and cash equivalents	$ 763,433
Other assets	448,428
Investments	82,882,445
Total assets	84,094,306
Liabilities:	
Distributions payable	26,841
Other payables	50,307
Obligations under securities lending	19,921,100
Total liabilities	19,998,248
Net Assets:	
Internal:	
Primary government	61,305,418
Component units	2,228,399
External	562,241
Total net assets	$ 64,096,058

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2003

Decrease in net assets from operations:	
Revenues:	
Investment income	$ 4,666,538
Expenses:	
Securities lending	251,620
Investment management	52,967
Total expenses	304,587
Net increase in net assets resulting from operations	4,361,951
Distributions to participants:	
Distributions paid and payable	(4,361,951)
Share transactions:	
Reinvestment of distributions	4,363,777
Net share redemptions	(1,762,252)
Total increase in net assets	2,601,525
Net assets:	
Beginning of year	61,494,533
End of year	$ 64,096,058

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 Alternative 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 Alternative Investment portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate trusts, limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2003, $38,563,221 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 State's 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 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, 2003, the deposits maintained by the State Treasurer consisted of (dollars in thousands):

	Carrying Value	Bank Balance
Demand	$ 88,187	$ 95,069
Time	205,246	205,246
Total Deposits	$ 293,433	$ 300,315

At year-end, 95 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):

Investment Pool	*Category* 1	*Category* 3	*Carrying Amount*
Investments Categorized:			
U.S. government and agency securities:			
Not on loan	$ 1,051,113	$ 200,060	$ 1,251,173
On loan for securities collateral	78,133	—	78,133
Corporate bonds and notes	7,620,060	5,423,677	13,043,737
GNMAs/Asset backed securities	3,820,928	9,766,852	13,587,780
Repurchase agreements	470,000	4,320,517	4,790,517
International bonds denominated in US $	409,910	—	409,910
Domestic equities	2,765	—	2,765
Total Investments Categorized	$ 13,452,909	$ 19,711,106	33,164,015
Investments Not Categorized:			
Bank obligations			209,994
Equity-based trust			28,387,119
Alternative investments			476,848
Real estate trust funds			1,584,356
Investments held by broker/dealers under securities loans with cash collateral:			
U.S. government and agency securities			15,945,836
GNMAs			2,542,709
Corporate bonds and notes			1,022,261
International bonds denominated in US $			19,307
Total Investment Pool			$ 83,352,445

During the year other investment types may have been owned by the Investment Pool, but all material investment types and categories are disclosed above.

Equity-based Trust - The State Treasurer has contracted with an external party (Trustee) to create the “Treasurer of the State of North Carolina Equity Investment Fund Pooled Trust”, (the Trust). The State’s Pension Trust Funds are the only depositors in the Trust. The State Treasurer employs investment managers to manage the assets, primarily in equity and equity-based securities in accordance with the General Statutes and parameters provided by the State Treasurer. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The Trustee also acts as a securities lending agent for the Trust, invests residual cash in a cash sweep fund, and may from time to time be temporarily employed as an investment manager. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities; consequently, the investment is not presented above in a credit risk category.

At year-end, the major investment classifications of the Investment Pool had the following attributes (dollars in thousands):

Investment Classification	Carrying Amount	Principal Amount	Range of Interest Rates	Range of Maturities
U.S. government and agency securities................	$ 17,075,082	$ 14,982,662	Zero-9.13%	2 Days - 30 Years
Corporate bonds and notes..................................	8,642,321	7,611,949	1.0%-9.50%	5 Years - 40 Years
GNMAs..	6,363,637	6,071,539	5.0%-9.0%	14 Years - 30 Years
Repurchase agreements......................................	470,000	470,000	0.88%-1.09%	1 Day
Securities purchased with cash collateral under securities lending program:				
Asset backed securities...............................	9,766,852	9,764,436	1.12%-1.57%	15 Days - 5 Years
Corporate bonds and notes..........................	5,423,677	5,422,500	1.06%-1.70%	126 Days - 3 Years
U.S. government and agency securities........	200,060	200,000	1.02%-1.50%	25 Days - 2 Years
Repurchase agreements...............................	4,320,517	4,320,517	0.97%-1.43%	1 Day
Equity-based trust..	28,387,119	Not applicable	Not applicable	Not applicable

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

Bond Proceeds	Category 1	Carrying Amount
Investments Categorized:		
Repurchase agreements...	$ 704,227	$ 704,227
Total Investments........	$ 704,227	$ 704,227

The Bond Proceeds Investment Accounts also invested in 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, 2003, the weighted average maturity of unmatched investments was approximately 21 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, 2003, the deposits maintained outside the State Treasurer by the primary government consisted of (dollars in thousands):

	Carrying Value	Bank Balance
Demand............................	$ 9,882	$ 14,366
Time.................................	989,474	1,001,923
Total Deposits..................	$ 999,356	$ 1,016,289

Of these bank balances, $465.348 million was covered by federal depository insurance, $475.196 million by collateral held by the escrow agent in the depositor's name, and $75.745 million was uninsured and uncollateralized.

Component Units

(University of North Carolina System, Golden LEAF, State Education Assistance Authority, and North Carolina Housing Finance Agency)

At June 30, 2003, the deposits maintained outside the State Treasurer by the University of North Carolina System consisted of (dollars in thousands):

	Carrying Value	Bank Balance
Demand	$ 46,352	$ 12,130
Time	14,931	24,165
Total Deposits	$ 61,283	$ 36,295

Of these bank balances, $4.763 million was covered by federal depository insurance, $0.448 million by collateral held by the escrow agent in the depositor's name, $0.920 million was covered by collateral held in the pledging bank's trust department in the depositor's name and $30.164 million was uninsured and uncollateralized.

At June 30, 2003, the deposits maintained outside the State Treasurer by the Golden LEAF consisted of (dollars in thousands):

	Carrying Value	Bank Balance
Demand	$ 306	$ 489
Time	314	314
Total Deposits	$ 620	$ 803

Of these bank balances, $0.600 million was covered by federal depository insurance and $0.203 million was uninsured and uncollateralized.

At June 30, 2003, the deposits maintained outside the State Treasurer by the State Education Assistance Authority consisted of (dollars in thousands):

	Carrying Value	Bank Balance
Demand	$ —	$ —
Time	7,953	7,953
Total Deposits	$ 7,953	$ 7,953

The entire balance of $7.953 million was uninsured and uncollateralized.

At June 30, 2003, the deposits maintained outside the State Treasurer by the North Carolina Housing Finance Agency consisted of (dollars in thousands):

	Carrying Value	Bank Balance
Demand	$ —	$ —
Time	9,689	9,689
Total Deposits	$ 9,689	$ 9,689

The entire balance of $9.689 million was covered by collateral held by the escrow agent in the depositor's name.

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, 2003. 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):

	Category 1	Category 2	Category 3	Carrying Amount
Investments Categorized:				
U.S. government securities	$ 2,913	$ 577	$ 2,695	$ 6,185
State and municipal securities	590	—	—	590
Corporate bonds	—	—	1,777	1,777
Corporate common stock	15,090	—	1,003	16,093
Repurchase agreements	—	—	15,685	15,685
Total Investments Categorized	$ 18,593	$ 577	$ 21,160	40,330
Investments Not Categorized: Money market funds				2,875
Mutual funds				1,616,690
Annuity contracts				270,731
Total Investments				$ 1,930,626

Component Units

(University of North Carolina System, Golden LEAF, State Education Assistance Authority, and North Carolina Housing Finance Agency)

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

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 on 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.

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.

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.

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 1	Category 2	Category 3	Carrying Amount
Investments Categorized:				
U.S. government securities	$ 59,754	$ 17,028	$ 2,551	$ 79,333
Collateralized mortgage obligations	58,482	8,812	—	67,294
State and municipal securities	4,529	60	—	4,589
Corporate bonds	47,181	17,838	60,875	125,894
Corporate common stock	129,140	34,315	615	164,070
Repurchase agreements	—	—	1,602	1,602
International corporate bonds	5,363	—	—	5,363
International government bonds	—	11	—	11
International equity securities	8,317	1,574	—	9,891
Total Investments Categorized	$ 312,766	$ 79,638	$ 65,643	458,047
Investments Not Categorized:				
Money market funds				118,113
Mutual funds				732,365
Annuity contracts				141
Real estate				40,954
Real estate investment trust				8,444
Limited partnerships				499,729
Investments held by broker-dealers under reverse repurchase agreements:				
U.S. government securities				108,453
Pooled investments				258
Other investments				40,525
Total Investments				$ 2,007,029

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

	Category 3	Carrying Amount
Investments Categorized:		
U.S. government securities	$ 6,978	$ 6,978
Corporate bonds	56,628	56,628
Corporate common stock	97,752	97,752
Total Investments Categorized	$ 161,358	161,358
Investments Not Categorized:		
Money market funds		68,273
Real estate		21,713
Limited partnerships		39,644
Other investments		33,667
Total Investments		$ 324,655

At year-end, investment balances maintained outside the State Treasurer for the State Education Assistance Authority were as follows (dollars in thousands):

	Category 1	Category 3	Amount
Investments Categorized:			
U.S. government securities	$ 4,330	$ —	$ 4,330
Corporate common stock	—	6,383	6,383
Repurchase agreements	163,156	—	163,156
Total Investments Categorized	$ 167,486	$ 6,383	173,869
Investments Not Categorized:			
Mutual funds			51,196
Annuity contracts			7,971
Total Investments			$ 233,036

NOTES TO THE FINANCIAL STATEMENTS

At year-end, investment balances maintained outside the State Treasurer for the NC Housing Finance Agency were as follows (dollars in thousands):

	Category 1	Carrying Amount
Investments Categorized:		
U.S. government securities......................	$ 34,925	$ 34,925
Repurchase agreements..........................	181,593	181,593
Total Investments Categorized.........	$ 216,518	$ 216,518

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 $2,747,646. 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.

NOTE 4: RECEIVABLES

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

	Gross Receivables (Including notes)	Allowance for Doubtful Accounts	Net Receivables
Governmental Activities:			
General Fund	$ 2,151,112	$ 469,671	$ 1,681,441
Highway Fund	106,478	4,195	102,283
Highway Trust Fund	29,782	—	29,782
Other governmental funds	330,706	45,668	285,038
Internal Service Funds	17,937	—	17,937
Total Governmental Activities	$ 2,636,015	$ 519,534	$ 2,116,481
Business-type Activities:			
Unemployment Compensation Fund	$ 278,098	$ 24,439	$ 253,659
EPA Revolving Loan Fund	412,971	—	412,971
Other enterprise funds	2,568	48	2,520
Total Business-type Activities	$ 693,637	$ 24,487	$ 669,150

Revenues of other enterprise funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are $24 thousand of uncollectibles related to sales and services used as security for bonds.

Within governmental activities, the only significant receivables not expected to be collected within one year are $2.7 million of accounts receivable in the General Fund and $225.4 million of notes receivable in other governmental funds.

Within business-type activities, the only significant receivables not expected to be collected within one year are $386 million of notes receivable in the EPA Revolving Loan Fund.

NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2003 is presented below (dollars in thousands).

Governmental Activities:	Balance, restated July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital Assets, nondepreciable:				
Land	$ 7,209,632	$ 504,562	$ 135	$ 7,714,059
Art, literature, and other artifacts	28,531	1,450	4	29,977
Construction in progress	1,453,742	1,257,017	1,244,870	1,465,889
Total capital assets-nondepreciable	8,691,905	1,763,029	1,245,009	9,209,925
Capital Assets, depreciable:				
Buildings	1,861,933	63,848	7,899	1,917,882
Machinery and equipment	1,413,997	133,692	103,859	1,443,830
Intangibles	208,334	4,236	9,672	202,898
Art, literature, and other artifacts	97	—	97	—
General infrastructure	172,515	3,383	2,508	173,390
State highway system	15,741,454	1,237,264	46,031	16,932,687
Total capital assets-depreciable	19,398,330	1,442,423	170,066	20,670,687
Less accumulated depreciation for:				
Buildings	(532,404)	(56,227)	(3,257)	(585,374)
Machinery and equipment	(852,100)	(122,461)	(81,772)	(892,789)
Intangibles	(101,705)	(4,967)	(9,424)	(97,248)
Art, literature, and other artifacts	(34)	(5)	(39)	—
General infrastructure	(84,806)	(5,810)	(1,319)	(89,297)
State highway system	(4,194,933)	(338,654)	(45,110)	(4,488,477)
Total accumulated depreciation	(5,765,982)	(528,124)	(140,921)	(6,153,185)
Total capital assets-depreciable, net	13,632,348	914,299	29,145	14,517,502
Governmental activities capital assets, net	$ 22,324,253	$ 2,677,328	$ 1,274,154	$ 23,727,427

Business-type Activities:	Balance, restated July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital Assets, nondepreciable:				
Land	$ 2,563	$ —	$ —	$ 2,563
Construction in progress	15,675	4,344	—	20,019
Total capital assets-nondepreciable	18,238	4,344	—	22,582
Capital Assets, depreciable:				
Buildings	28,631	—	—	28,631
Machinery and equipment	3,430	256	377	3,309
General infrastructure	20,648	—	3	20,645
Total capital assets-depreciable	52,709	256	380	52,585
Less accumulated depreciation for:				
Buildings	(14,028)	(787)	—	(14,815)
Machinery and equipment	(2,573)	(53)	(363)	(2,263)
General infrastructure	(11,848)	(816)	(3)	(12,661)
Total accumulated depreciation	(28,449)	(1,656)	(366)	(29,739)
Total capital assets-depreciable, net	24,260	(1,400)	14	22,846
Business-type activities capital assets, net	$ 42,498	$ 2,944	$ 14	$ 45,428

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

Governmental activities:	
General government	$ 29,129
Primary and secondary education	1,002
Health and human services	20,463
Economic development	2,163
Environment and natural resources	28,424
Public safety, correction, and regulation	39,668
Transportation	403,705
Agriculture	3,570
Total depreciation expense	$ 528,124
Business-type activities:	
Town of Butner Water and Sewer	$ 630
N.C. State Fair	603
USS North Carolina Battleship Commission	105
Agricultural Farmers Market	242
EPA Revolving Loan Fund	13
Other business-type activities	63
Total depreciation expense	$ 1,656

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, 2003, was as follows (dollars in thousands):

University of North Carolina System:	Balance, restated July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital Assets, nondepreciable:				
Land	$ 129,416	$ 28,815	$ 956	$ 157,275
Art, literature, and other artifacts	84,855	7,004	1	91,858
Construction in progress	647,199	408,802	244,301	811,700
Total capital assets-nondepreciable	861,470	444,621	245,258	1,060,833
Capital Assets, depreciable:				
Buildings	3,531,271	329,003	4,645	3,855,629
Machinery and equipment	1,089,053	149,027	67,226	1,170,854
Intangibles	1,000	—	—	1,000
Art, literature, and other artifacts	1,398	296	—	1,694
General infrastructure	558,649	100,677	1,197	658,129
Total capital assets-depreciable	5,181,371	579,003	73,068	5,687,306
Less accumulated depreciation for:				
Buildings	(1,269,412)	(100,256)	(4,487)	(1,365,181)
Machinery and equipment	(684,279)	(97,112)	(56,923)	(724,468)
Art, literature, and other artifacts	(370)	(138)	—	(508)
General infrastructure	(199,687)	(22,330)	(254)	(221,763)
Total accumulated depreciation	(2,153,748)	(219,836)	(61,664)	(2,311,920)
Total capital assets-depreciable, net	3,027,623	359,167	11,404	3,375,386
University of North Carolina System capital assets, net	$ 3,889,093	$ 803,788	$ 256,662	$ 4,436,219

Community Colleges:	Balance, restated July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital Assets, nondepreciable:				
Land	$ 74,732	$ 6,625	$ 352	$ 81,005
Art, literature, and other artifacts	1,149	—	—	1,149
Construction in progress	67,831	96,206	24,269	139,768
Total capital assets-nondepreciable	143,712	102,831	24,621	221,922
Capital Assets, depreciable:				
Buildings	1,079,353	34,638	1,333	1,112,658
Machinery and equipment	151,259	15,141	6,841	159,559
Art, literature, and other artifacts	120	9	—	129
General infrastructure	48,310	3,608	143	51,775
Intangibles	688	12	—	700
Total capital assets-depreciable	1,279,730	53,408	8,317	1,324,821
Less accumulated depreciation for:				
Buildings	(333,325)	(29,032)	(1,047)	(361,310)
Machinery and equipment	(85,680)	(14,073)	(5,568)	(94,185)
Art, literature, and other artifacts	(11)	(3)	—	(14)
General infrastructure	(25,995)	(2,533)	(141)	(28,387)
Total accumulated depreciation	(445,011)	(45,641)	(6,756)	(483,896)
Total capital assets-depreciable, net	834,719	7,767	1,561	840,925
Community Colleges capital assets, net	$ 978,431	$ 110,598	$ 26,182	$ 1,062,847

NOTE 6: SHORT-TERM DEBT

Primary Government

Beginning in April 2003, the State received repayable advances from the Federal Unemployment Account (FUA) to finance an operating deficit in the State's unemployment compensation fund. The advances were repaid as employer contributions became available. The State took additional advances after June 30, (see Note 22, Subsequent Events); however, all advances from the FUA were repaid in full by September 30, 2003. Advances taken from January 1 to September 30, which are repaid in full on or before September 30, are considered cash flow advances and do not accrue interest provided that the State does not take additional advances from October 1 through December 31(of same calendar year). The State does not plan to take additional FUA advances through December 31, 2003.

Short-term debt activity for the fiscal year ended June 30, 2003, was as follows (dollars in thousands):

	Balance July 1, 2002	Draws	Repayments	Balance June 30, 2003
FUA Advance........................	$ —	$ 62,798	$ 62,798	$ —

Component Units

University of North Carolina System

North Carolina State University has available Commercial Paper Program financing for short-term credit up to $25,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future.

The University of North Carolina at Chapel Hill has available Commercial Paper Program financing for short-term credit to provide interim financing for the construction of capital projects. The July 1, 2002 balance of $1,000,000 issued from the University of North Carolina General Revenue Bonds, Series 2002A had a maturity date of November 12, 2002 and has been extended to November 2003. The $18,000,000 issued during the fiscal year also matures in November 2003.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2003, was as follows (dollars in thousands):

	Balance July 1, 2002	Draws	Repayments	Balance June 30, 2003
Commercial Paper Program................................	$ 3,000	$ 30,000	$ 14,000	$ 19,000

NOTE 7: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2003, was as follows (dollars in thousands):

	Balance June 30, 2002	*Increases*	*Decreases*	*Balance June 30, 2003*	*Amounts Due in One Year*
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 3,467,325	$1,267,950	$ 668,285	$4,066,990	$ 235,015
Less deferred amounts:					
For issuance discounts	(3,081)	—	(719)	(2,362)	—
On refunding	—	(56,044)	(2,266)	(53,778)	—
Add issuance premium	13,709	24,177	3,133	34,753	—
Total bonds payable	3,477,953	1,236,083	668,433	4,045,603	235,015
Certificates of participation	—	17,500	—	17,500	290
Notes payable	11,753	—	2,124	9,629	2,218
Capital leases payable	216	150	44	322	119
Arbitrage rebate payable	1,287	—	210	1,077	126
Compensated absences	209,256	256,359	191,156	274,459	21,847
Net pension obligation	3,775	13,770	12,889	4,656	—
Workers' compensation	7,145	927	1,253	6,819	1,156
Deferred death benefit payable	170	150	215	105	90
Cost settlement payable	—	20,000	—	20,000	12,500
Governmental activity long-term liabilities	$ 3,711,555	$1,544,939	$ 876,324	$4,380,170	$ 273,361

	Balance June 30, 2002	*Increases*	*Decreases*	*Balance June 30, 2003*	*Amounts Due in One Year*
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 9,805	$ —	$ 235	$ 9,570	$ 245
Total bonds payable	9,805	—	235	9,570	245
Compensated absences	578	656	534	700	70
Business-type activity long-term liabilities	$ 10,383	$ 656	$ 769	$ 10,270	$ 315

For governmental activities, the compensated absences, net pension obligation, and workers compensation liabilities are generally liquidated by the general fund. Arbitrage rebate payable is generally liquidated by other governmental funds. A portion of compensated absences is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $2,726,000 of internal service funds compensated absences are included in the above amounts.

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, 2003, was as follows (dollars in thousands):

	Balance June 30, 2002	*Increases*	*Decreases*	*Balance June 30, 2003*	*Amounts Due in One Year*
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$ 1,355,880	$ 327,710	$ 158,283	$ 1,525,307	$ 158,139
Less deferred amounts:					
For issuance discounts	(68,744)	—	(8,670)	(60,074)	—
On refunding	(7,550)	(13,991)	(703)	(20,838)	—
Add issuance premium	6,221	5,190	1,346	10,065	—
Total bonds payable	1,285,807	318,909	150,256	1,454,460	158,139
Notes payable	21,852	42,916	7,841	56,927	11,278
Capital leases payable	2,039	913	1,009	1,943	889
Arbitrage rebate payable	2,309	1,017	17	3,309	93
Annuity and life income payable	7,774	2,755	1,128	9,401	767
Compensated absences	141,449	177,951	130,151	189,249	14,681
Total long-term liabilities	$ 1,461,230	$ 544,461	$ 290,402	$ 1,715,289	$ 185,847

	Balance June 30, 2002	*Increases*	*Decreases*	*Balance June 30, 2003*	*Amounts Due in One Year*
North Carolina Housing Finance Authority:					
Bonds payable:					
Revenue bonds	$ 1,348,072	$ 58,060	$ 100,495	$ 1,305,637	$ 24,245
Less deferred amounts:					
For issuance discounts	(19,727)	1,922	524	(18,329)	—
On refunding	(2,518)	182	—	(2,336)	—
Total bonds payable	1,325,827	60,164	101,019	1,284,972	24,245
Arbitrage rebate payable	298	345	—	643	—
Compensated absences	281	92	—	373	30
Total long-term liabilities	$ 1,326,406	$ 60,601	$ 101,019	$ 1,285,988	$ 24,275

	Balance June 30, 2002	*Increases*	*Decreases*	*Balance June 30, 2003*	*Amounts Due in One Year*
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$ 1,103,406	$ 260,000	$ 63,600	$ 1,299,806	$ 1,000
Total bonds payable	1,103,406	260,000	63,600	1,299,806	1,000
Arbitrage rebate payable	2,650	6	168	2,488	—
Compensated absences	115	57	7	165	10
Total long-term liabilities	$ 1,106,171	$ 260,063	$ 63,775	$ 1,302,459	$ 1,010

B. Bonds, Certificates of Participation, and Notes Payable

Bonds, certificates of participation, and notes payable at June 30, 2003 were (dollars in thousands):

	Interest Rates	Final Maturity	Original Issue	Outstanding Balance
Primary Government:				
Long-term obligations:				
General obligation bonds...............................	1.5 - 18%; Variable	3/1/2028	$ 4,746,929	$ 4,066,990
Certificates of participation.............................	2.0 - 5.25%	6/1/2023	17,500	17,500
Notes payable..	3.84 - 5. 7%	9/1/2008	15,123	9,629
Enterprise Funds				
Revenue bonds payable..............................	Variable	9/1/2025	9,905	9,570
Component Units:				
Revenue bonds payable:				
University of North Carolina System.............	0.55 - 9.25%; Variable	2/15/2031	1,641,105	1,525,307
N.C. Housing Finance Agency.....................	1.5 - 8.25%; Variable	2/20/2043	2,495,706	1,305,637
State Education Assistance Authority...........	0.98 - 6.35%; Variable	7/1/2032	1,377,250	1,299,806
Notes payable:				
University of North Carolina System.............	1.52 - 8.13%	10/15/2023	65,277	56,927

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. The certificates of participation issued by the NC Infrastructure Finance Corporation, a blended component unit of the State, are secured solely by lease payments made by the State and in the event of default, by a security interest in the leased facilities pursuant to a leasehold deed of trust. 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, 2003, totaled $3.053 billion as follows: Higher Education $1.985 billion; Highway Construction $700 million; Clean Water $316 million; and Natural Gas $52 million.

D. Demand Bonds

University of North Carolina System

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; Housing System, Series 2000; Kenan Stadium, Series 1996; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the University's remarketing agents, Lehman Brothers, Inc (2001B) and UBS Financial Services, Inc (2001C).

Under an irrevocable line of credit issued by The Toronto-Dominion Bank and JP Morgan Chase Bank, the University is entitled to draw up to $54,970,000 from each bank or a maximum aggregate of $109,940,000 which the University would apply to meet its obligation to pay the 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 line 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, 2003, no purchase drawings had been made under the letter of credit. The letter of credit terminates on February 4, 2004.

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 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 Wachovia Bank, N.A., 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 Wachovia Bank, N.A., 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 0.20% 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, 2003 there were no liquidity provider bonds held by the liquidity facility. The original liquidity facility is scheduled to expire on September 15, 2008 unless otherwise extended based on the terms of the agreement.

Upon expiration or termination of the agreement, the University is required to redeem (purchase) the liquidity provider bonds held by the liquidity facility in twenty quarterly 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.

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 London Interbank Offered Rates (LIBOR) 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 2002-2003, the University paid Lehman Brothers $321,000 under this agreement.

Variable Rate General Revenue Bonds, Series 2003B – North Carolina State University

On June 20, 2003 North Carolina State University issued tax-exempt variable rate revenue demand bonds in the amount of $45,660,000 that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2004. The proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's bond paying agent, The Bank of New York. Upon notice from the bond paying agent, the remarketing agent, UBS Financial Services 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 Bayerische Landesbank, 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 0.20% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003 and on each October 1, January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the agreement.

Under the agreement, any bonds purchased through the liquidity facility become liquidity provider bonds and shall, from the date of such purchase and while they are liquidity provider bonds, bear interest at the liquidity provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of liquidity provider bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered liquidity provider bonds. Payment of the interest on the liquidity provider bonds is due the first business day of each month in which liquidity provider bonds are outstanding. At June 30, 2003, there were no liquidity provider bonds held by the liquidity facility. The original liquidity facility is scheduled to expire on June 19, 2008, unless otherwise extended based on the terms of the agreement.

Upon expiration or termination of the agreement, the University is required to redeem (purchase) the liquidity provider bonds held by the liquidity facility in twenty quarterly installments, beginning the first business day of the January, April, July or October, whichever first occurs on or following the purchase date along with accrued interest at the liquidity provider rate.

Effective June 20, 2003, the University entered into an interest rate swap contractual agreement with Bank of America, N.A., on $24,655,000 of these demand bonds. Under this agreement the University will pay interest at a fixed rate of

3.54%. On a monthly basis the difference between the weighted average of the weekly Bond Market Association Municipal Swap Index (BMA) rate and the fixed rate will be calculated. If the fixed rate is greater than the BMA calculated rate, the University will pay the difference to Bank of America, N.A. If the BMA rate is greater, Bank of America, N.A. will refund the difference to the University. During the fiscal year the University paid Bank of America, N.A. $19,000 under this agreement.

Effective June 20, 2003, the University entered into an interest rate swap contractual agreement with Bank of America, N.A., on $21,005,000 of these demand bonds. Under this agreement the University will pay interest at a fixed rate of 1.19%. On a monthly basis the difference between the weighted average of the weekly BMA rate and the fixed rate will be calculated. If the fixed rate is greater than the BMA calculated rate, the University will pay the difference to Bank of America, N.A. If the BMA rate is greater, Bank of America, N.A. will refund the difference to the University. During the fiscal year the University paid Bank of America, N.A. $1,000 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, 2003, 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 extended for an additional period of up to three years at the discretion of the liquidity provider and acceptance by the Board of Governors of the University of North Carolina.

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

Athletic Department, Series 1996 – 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, 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, 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, 2003, 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, N.A. that the letter of credit will not be extended. As of June 30, 2003, the earliest such termination date is July 31, 2004.

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 $173 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. 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 therefore 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, 2003, 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 $1,660,000.

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 ($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, Wachovia Bank, N.A. 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-Thuringen Girozentrale*, a liquidity facility has been established for the tender agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These agreements require 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, 2003, 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 27, 2004. The Hospitals may request additional extensions of up to 364 days. Extensions are at the discretion of the liquidity provider.

The University of North Carolina Hospitals' Revenue Refunding Bonds, Series 2003A and 2003B

On February 13, 2003, the Board of Governors of The University of North Carolina issued Series 2003A and Series 2003B Revenue Refunding Bonds on behalf of the Hospitals. These tax-exempt variable rate demand bonds with an initial interest rate mode of weekly were issued in the amount of $98,015,000 and have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that begins on February 1, 2004. The proceeds were used to advance refund $88,325,000 of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

The bonds are subject to purchase on demand with seven days notice and delivery to the bond Tender Agent, Wachovia Bank, N.A. The Hospitals' remarketing agents, Banc of America Securities LLC (Series 2003A) or Wachovia Bank, N. A. (Series 2003B) 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 2003A and Series 2003B (Agreements) between the Hospitals and Bank of America, N.A. (Series 2003A) or Wachovia Bank, N.A. (Series 2003B) a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require a facility fee equal to .20% for Series 2003A and .22% for Series 2003B of the available commitment, payable quarterly in advance, beginning on February 13, 2003, and on each February 1, May 1, August 1, and November 1 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 Bank Bond Interest Rate (for Series 2003A, the rate equals LIBOR plus 2.50% for the first 90 days and then equals LIBOR plus 2.50%; for Series 2003B, the rate equals Prime 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 on the first business day of each month for each period in which Bank Bonds are outstanding. At June 30, 2003, 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 for the Series 2003A on the first February 1, May 1, August 1 and November 1 that occurs at least 90 days after it originally becomes a bank bond. Alternatively, the purchase may be paid in twelve equal quarterly installments. For the Series 2003B, the purchase must occur on the date 90 days after the bond became a bank bond. Alternatively, the Bank can establish a loan to the Hospitals for the bank bonds with a repayment schedule of 36 monthly payments and an interest rate of Prime plus 1%.

The current expiration date of the Series 2003A Agreement is February 12, 2004 and February 13, 2005 for the Series 2003B Agreement. The Hospitals have requested and received an extension through June 30, 2005 on the Series 2003A Agreement. The Hospitals may request additional extensions which are approved at the discretion of the Liquidity Provider.

E. Interest Rate Swaps

<u>Primary Government</u>

Governmental activities

Objective of the interest rate swap. As a means to lower its borrowing costs and increase its savings, when compared against fixed-rate refunding bonds at the time of issuance in December 2002, the State entered into two interest rate swaps in connection with its $499,870,000 Variable Rate General Obligation Refunding Bonds, Series 2002B-F. The intention of the swap agreements was to effectively change the State's interest rate on the bonds to a synthetic fixed rate of 3.283% and 3.089%. For comparison, the State sold fixed rate bonds on the same day as the swap, with the same maturity, at an interest rate of 4.4516%.

Terms. The bonds and the related swap agreements mature on June 1, 2019 (Swap 1) and June 1, 2017 (Swap 2) and the combined swaps' notional amount of $499,870,000 matches the $499,870,000 million variable-rate bonds. The swaps were entered into at the same time the bonds were issued, (December 2002.) Starting in fiscal year 2012 the combined notional value of the swaps and the combined principal amount of the associated debt decline. Under the swaps the State pays the counterparties a fixed payment of 3.283% (Swap 1) and 3.089% (Swap 2) and receives a variable payment computed at 64 percent of the London Interbank Offered Rate (LIBOR). Conversely, the bonds' variables-rate coupons are closely associated with the Bond Market Association Municipal Swap Index (BMA).

Fair value. Because interest rates have declined since execution of the swaps, the swaps have negative fair values of $13,009,529 (Swap 1) and $13,572,228 (Swap 2) as of June 30, 2003. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on the State's variable-rate bonds are adjusted every seven days to changing interest rates, the bonds do not have a corresponding fair value increase. The mark-to-market valuations were established by market quotations from the counterparties representing estimates of the amounts that would be paid for replacement transactions.

Credit risk. As of June 30, 2003 the State was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the State would be exposed to credit risk in the amount of the derivatives' fair values. Swap 1's counterparty was rated Aa1 by Moody's Investors Service (Moody's), AA- by Standard and Poor's (S&P) and AA by Fitch Ratings (Fitch). To mitigate the potential for credit risk if that counterparty's credit quality falls to A1 by Moody's or A+ by either S&P or Fitch and their exposure exceeds $5,000,000 the fair value of Swap 1 will be fully collateralized by the counterparty with U.S. government securities. Swap 2's counterparty was rated Aaa by Moody's and AA+ by S&P. If that counterparty's credit quality falls below Aaa by Moody's, or AAA by S&P and their exposure exceeds $10,000,000, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with a third party custodian. An additional termination event occurs if the counterparty ratings fall below Baa1 (Moody's) or BBB+ (S&P and Fitch) by at least two ratings agencies for Swap 1. For Swap 2, an additional termination event occurs if the counterparty fails to maintain at least one rating of at least Baa3 (Moody's) or BBB- (S & P).

Basis risk and termination risk. The swaps expose the State to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.283% and 3.089% and the synthetic rates as of June 30, 2003 of 3.4862% (Swap 1) and 3.2922% (Swap 2). As of June 30, 2003, the rate on the State's Bonds was 0.92%, whereas 64 percent of LIBOR was 0.7168%. The swaps may be terminated by the State with 15 days notice and the counterparties can only terminate the swaps if the State falls below Baa1 with Moody's, or BBB+ with either S&P or Fitch for Swap 1, and on Swap 2, below Baa3 with Moody's or BBB- with either S&P or Fitch, or an Event of Default occurs.

Market-access risk/Rollover-risk. The State's swaps are for the term (maturity) of the Bonds and therefore there is no market-access risk or rollover risk.

Swap payments and associated debt. Using rates of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments of governmental activities assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. As indicated in a preceding paragraph, the initial synthetic fixed interest rate lowers the State's interest cost by over 26% compared with the issuance of fixed-rate debt.

Fiscal Year	Variable-Rate Bonds		Interest Rate	
Ending June 30	Principal	Interest	Swaps, Net	Total
2004	—	$ 4,599	$ 12,305	$ 16,904
2005	—	4,599	12,305	16,904
2006	—	4,599	12,305	16,904
2007	—	4,599	12,305	16,904
2008	—	4,599	12,305	16,904
2009-2013	77,175	22,786	60,991	160,952
2014-2018	331,910	14,585	39,845	386,340
2019-2023	90,785	835	2,330	93,950
Total	$ 499,870	$ 61,201	$ 164,691	$ 725,762

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities

Objective of the interest rate swap. In order to protect against the potential of rising interest rates, the, State entered into an interest rate swap in connection with its $9,905,000 Butner Water and Sewer System Revenue Bond Series 2001. The intention of the swap agreements was to effectively change the State's interest rate on the bonds to a fixed rate of 4.21% (plus remarketing and liquidity fees and any difference between the variable rate received by the State (65% of LIBOR) and the rate paid by the State on the Variable Rate Bonds).

Terms. The swap agreement was with Bank of America, N.A. based on a notional amount of $9,905,000 to mature on September 1, 2025. The swap's notional amount of $9,905,000 matches the $9,905,000 variable-rate bonds. Under the swap, the State pays a fixed payment of 4.21% to Bank of America, N.A. and receives a variable payment of 65% of the LIBOR (LIBOR was 1.12% at 6/30/2003). On the other hand, the bond's variable-rate coupons (1.00 % at 6/30/2003) are closely associated with the variable BMA, which was .98% as of June 30, 2003.

Fair Value. Because interest rates have declined since execution of the swap, the swap has a negative fair value (the State would have to pay the counterparty if the State terminated the swap) of $ 1,401,046 (Bank of America) as of June 30, 2003. The swap's negative fair value if terminated may be countered by a reduction in total interest payments required under a new swap creating a lower synthetic fixed rate. Because the coupons on the State's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The mark-to-market valuations were established by market quotations from the counterparty representing mid-market or average estimates/quotes of the amounts that would be paid for replacement transactions (having the effect of preserving the economic benefit to the party).

Credit risk. As of June 30, 2003 the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Basis risk and termination risk. The Swap exposes the State to basis risk (including effects of any reduction in marginal tax rates) should the relationship between LIBOR and BMA converge, changing the synthetic rate to the State on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 4.21 % and the actual synthetic rate as of June 30, 2003 of (3.482 % + 1.00 %) 4.482 % reflecting a Bond Rate/LIBOR relationship of 89.29% compared to 65% of LIBOR the state is receiving (as of June 30). The swap may be terminated by either party if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for that amount.

Swap payments and associated debt. Using rates of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments of business-type activities assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Variable-Rate Bonds		Interest Rate	
Ending June 30	Principal	Interest	Swaps, Net	Total
2004	$ 245	$ 94	$ 301	$ 640
2005	255	91	293	639
2006	270	89	285	644
2007	280	86	276	642
2008	295	83	266	644
2009-2013	1,675	367	1,177	3,219
2014-2018	2,085	272	873	3,230
2019-2023	2,600	154	495	3,249
2024-2028	1,865	24	77	1,966
Total	$ 9,570	$ 1,260	$ 4,043	$ 14,873

Component Units

University of North Carolina System

University of North Carolina at Chapel Hill

Objective. In order to protect against the risk of interest rate changes, effective October 3, 2000, the University entered into an interest rate swap contract agreement with Lehman Brothers Special Financing, Inc. (Lehman Brothers) related to $22,000,000 of The University of North Carolina at Chapel Hill Variable Rate Housing System Revenue Bonds, Series 2000. This series of bonds was refunded in its entirety by the issuance of The University's Variable Rate General Revenue Bonds, Series 2001B, and the interest swap agreement was amended to reflect the refunding.

Terms, fair value and credit risk. Under this amended agreement, Lehman Brothers pays the University interest on the notional amount based on the BMA on a quarterly basis. For the fiscal year ended June 30, 2003, Lehman Brothers paid the University $285,962 under this agreement. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24%. For the fiscal year ended June 30, 2003, the University paid Lehman Brothers $1,147,167 under this agreement. The notional amount of the swap reduces annually; the reductions began in November 2002 and end in November 2025. The swap agreement matures November 1, 2025. As of June 30, 2003, rates were as follows:

	Terms	Rate
Fixed payment to Lehman	Fixed	5.24
Variable payment from Lehman	BMA	1.13
Net interest rate swap payments		4.11
Variable rate bond coupon payments		1.00
Synthetic interest rate on bonds		5.11
Fixed payment to Lehman		5.24

As of June 30, 2003, the swap had a negative fair value of $5,505,094. The fair value was developed by Lehman Brothers. Their method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2003, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. Should the swap have a positive fair value of more than $1,000,000, at that point Lehman would be required to collateralize 103% of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A2 by Moody's Investor's Service, A by Standard and Poor's Corporation, and A+ by Fitch Ratings.

Basis risk. The University receives the BMA Index from Lehman Brothers and pays a floating rate to its bondholders set by the remarketing agent. The University incurs basis risk when its bonds begin to trade at a yield above the BMA. Basis risk also exists since swap payments are made quarterly while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a BMA swap to a percentage of LIBOR swap. This would introduce basis risk. If the relationship of the University's bonds trade to a percentage of LIBOR greater than 65%, the University will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Lehman Brothers fails to perform under terms of the contract.

North Carolina State University

Objective. In order to protect against the potential of rising interest rates, the University entered into three separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the University would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk.. The University's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2003 were as follows: ***(in thousands)***

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
Centennial Campus 1999A	$9,000	10/1/1999	4.574%	67% of LIBOR[1]	$(1,529)	12/1/2019	A2 / A / A+
General Revenue 2003B	24,655	6/20/2003	3.54%	BMA[2,3]	(21)	10/1/2027	Aa1 / AA- / AA
General Revenue 2003B	21,005	6/20/2003	1.19%	BMA	38	7/1/2005[4]	Aa1 / AA- / AA
Total	$54,660				$(1,512)		

[1] London Interbank Offered Rate
[2] The Bond Market Association Municipal Swap Index ™
[3] Variable rate received is BMA Municipal Swap Index from 6/20/03 to 7/1/06, thereafter, the variable rate received will be 75% of LIBOR
[4] Counterparty has the option to extend the swap to July 1, 2007

Because rates have declined, two of the three swaps have negative fair value as of June 30, 2003. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2003.

As of June 30, 2003, the University was exposed to credit risk in the amount of the positive fair value on the short-term General Revenue 2003B derivative's fair value. The swap agreements do not contain a requirement for collateral, although the General Revenue 2003B swaps require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's Investors Services or BBB as issued by Standard & Poors or Fitch Ratings. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. Of the three agreements entered into by the University, two swaps, approximating 83% of the notional amount of the swaps outstanding, are held with one counterparty. All the counterparties are rated Aa1or better.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than BMA. Should the relationship between LIBOR and BMA move to convergence, the expected cost savings may not be realized. As of June 30, 2003, the BMA rate was 1.01 percent, whereas 67% of LIBOR was 1.18 percent.

Termination risk. The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

University of North Carolina Hospitals

Objective. In order to protect against the risk of interest rate changes, the Hospitals entered into an interest rate swap contract agreement with Bank of America, N.A. (BOA) on February 13, 2003. The agreement covers the $63,770,000 of The University of North Carolina Hospitals at Chapel Hill Variable Rate Revenue Refunding Bonds, Series 2003 A and $34,245,000 of The University of North Carolina Hospitals at Chapel Hill Variable Rate Revenue Refunding Bonds, Series 2003 B. The 2003 series of bonds partially refunded The Hospitals' Fixed Rate General Revenue Bonds, Series 1996.

Terms, fair values, and credit risk. Under this agreement, BOA pays the Hospitals interest on the notional amount based on 67% of the arithmetic mean of the USD-LIBOR-BBA (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pays BOA interest at the fixed rate of 3.48%. No cash was paid or received by the Hospital upon initiation of the agreement. The notional amount of the swap reduces annually; the reductions begin in February 2004 and end in February 2029. The swap agreement terminates February 1, 2029. As of June 30, 2003, rates were as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Terms	Rates
Fixed payment to BOA	Fixed	3.48
Variable payment from BOA	LIBOR[1]	
	BBA[2]	0.80
Net interest rate swap payments		2.68
Variable rate bond coupon payments		0.95
Synthetic interest rate on bonds		3.63

[1] London Inter-Bank Offered Rate
[2] British Bankers Association

Because rates have declined, the swap had a negative fair value of $5,972,285 as of June 30, 2003. BOA developed the fair value. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2003, the Hospitals was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's positive fair value. BOA is currently rated AA by Moody's Investor's Service, Aa1 by Standard and Poor's Corporation, and AA- by Fitch Ratings. At such time that their ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%).

Basis Risk: The Hospitals receives 67% of 1-month LIBOR-BBA Index from BOA and pays a floating rate to its bondholders set by the remarketing agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of 1-month LIBOR-BBA Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

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

University of North Carolina System

Swap payments and associated debt. Using rates as of June 30, 2003, debt service requirements of the variable rate debt and net swap payments of the University of North Carolina System (which includes the University of North Carolina at Chapel Hill, North Carolina State University and the University of North Carolina Hospitals), assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2004	$ 2,390	$ 1,976	$ 4,355	$ 8,721
2005	3,055	1,935	4,290	9,280
2006	2,915	1,711	4,223	8,849
2007	3,010	1,682	4,187	8,879
2008	3,165	1,653	4,152	8,970
2009-2013	18,115	7,740	20,075	45,930
2014-2018	32,330	6,627	17,973	56,930
2019-2023	42,275	4,691	12,980	59,946
2024-2028	68,430	2,148	5,192	75,770
2029-2033	8,235	46	123	8,404
Total	$ 183,920	$ 30,209	$ 77,550	$ 291,679

N.C. Housing Finance Agency

Objective of the interest rate swap. The Agency entered into an interest rate swap in connection with its $20 million variable-rate revenue bonds associated with Single Family Resolution 1998, Series 15, as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance in May 2003. The intention of the swap was to effectively lower the Agency's interest rate on the long term bonds to a fixed rate of 3.51%.

Terms. The bonds and the related swap agreement mature on July 1, 2032, and the swap's notional amount of $20 million matches the $20 million variable-rate bonds. Under the swap, the Agency pays the counterparty UBS AG a fixed payment of 3.51% and receives a variable payment computed as 63% on the LIBOR, plus 30 basis points. The bond's variable-rate coupons are based on the variable BMA, which was .80% as of June 30, 2003. After 10 years, $10 million of the swap is cancelable at the option of the Agency.

Fair value. Because interest rates declined after execution of the swap, the swap had a negative fair value of $895,000 as of June 30, 2003. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Basis risk and termination risk. The swap exposes the Agency to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.51%) and the synthetic rate as of June 30, 2003, (3.30%). The swap may be terminated if the counterparty's credit quality rating falls below A3 as issued by Moody's Investors Service or A- as issued by Fitch Ratings or Standards & Poor's.

Swap payments and associated debt. As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments of the N.C. Housing Finance Agency are as follows. The amounts below are in thousands:

Fiscal Year	Variable-Rate Bonds		Interest Rate	
Ending June 30	Principal	Interest	Swaps, Net	Total
2004	—	$ 160	$ 501	$ 661
2005	470	159	489	1,118
2006	720	155	471	1,346
2007	835	149	450	1,434
2008	805	142	430	1,377
2009-2013	3,590	620	1,871	6,081
2014-2018	3,845	483	1,438	5,766
2019-2023	4,490	306	873	5,669
2024-2028	3,515	143	381	4,039
2029-2033	1,730	25	53	1,808
Total	$ 20,000	$ 2,342	$ 6,957	$ 29,299

F. Debt Service Requirements

Bonds, Certificates of Participation and Notes Payable

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds, certificates of participation, and revenue bonds, as well as on notes payable, outstanding at June 30, 2003 (dollars in thousands). This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 7(E). Debt service requirements are disclosed for the primary government and component units (University of North Carolina System, N.C. Housing Finance Agency and the State Education Assistance Authority).

	Bonds Payable			
	Primary Government			
Fiscal Year	General Obligation Bonds Principal	General Obligation Bonds Interest	Town of Butner Revenue Bonds Principal	Town of Butner Revenue Bonds Interest
2004	$ 235,015	$ 171,666	$ 245	$ 395
2005	238,925	161,459	255	385
2006	238,970	150,722	270	373
2007	239,025	139,788	280	362
2008	239,320	128,749	295	349
2009-2013	1,191,820	470,818	1,675	1,544
2014-2018	1,106,995	215,854	2,085	1,145
2019-2023	494,420	53,875	2,600	649
2024-2028	82,500	8,910	1,865	100
2029-2033	—	—	—	—
2034-2038	—	—	—	—
2039-2043	—	—	—	—
Total	$ 4,066,990	$ 1,501,841	$ 9,570	$ 5,302

	Bonds Payable					
	Component Units					
Fiscal Year	University of North Carolina System Principal	University of North Carolina System Interest	N.C Housing Finance Agency Principal	N.C Housing Finance Agency Interest	State Education Assistance Authority Principal	State Education Assistance Authority Interest
2004	$ 58,018	$ 54,309	$ 24,245	$ 70,283	$ 1,000	$ 17,736
2005	60,027	52,811	28,407	69,099	1,000	17,682
2006	62,360	50,460	30,090	67,780	1,000	17,627
2007	64,824	48,030	30,850	66,279	—	17,627
2008	66,225	45,457	33,510	64,654	—	17,627
2009-2013	344,090	189,781	175,875	278,893	352,906	75,253
2014-2018	343,020	124,223	231,630	230,668	353,900	41,999
2019-2023	292,774	64,309	204,429	171,928	—	32,469
2024-2028	181,935	17,968	307,900	105,390	30,000	32,169
2029-2033	52,034	982	216,037	32,202	560,000	13,296
2034-2038	—	—	19,551	12,885	—	—
2039-2043	—	—	3,113	536	—	—
Total	$ 1,525,307	$ 648,330	$ 1,305,637	$ 1,170,597	$ 1,299,806	$ 283,485

At year end the primary government's general obligation bonds included $355 million of variable rate Public Improvement Bonds, Series 2002D, E, F and G. These bonds 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 the escrow bonds) shall bear interest at a rate in excess of twelve percent (12%) per annum. In the case of the 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.

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year	Notes Payable — Primary Government Principal	Primary Government Interest	Component Unit — University of North Carolina System Principal	Component Unit — University of North Carolina System Interest
2004	$ 2,218	$ 399	$ 10,349	$ 1,180
2005	2,319	298	38,931	827
2006	2,423	194	1,563	283
2007	1,204	107	1,339	222
2008	1,465	47	1,339	167
2009-2013	—	—	3,406	161
2014-2018	—	—	—	—
2019-2023	—	—	—	—
Total	$ 9,629	$ 1,045	$ 56,927	$ 2,840

Fiscal Year	Certificates of Participation — Primary Government Principal	Primary Government Interest
2004	$ 290	$ 929
2005	435	791
2006	650	780
2007	665	764
2008	690	738
2009-2013	3,845	3,301
2014-2018	4,770	2,383
2019-2023	6,155	995
Total	$ 17,500	$ 10,681

G. Bond Defeasances

Primary Government

On December 1, 2002, the State issued $556,350,000 in *2002 Series A Refunding and Series B, C, D, E, and F Variable Rate Refunding Bonds* with a combined average interest rate of 3.24%. The State entered into two interest rate swap agreements that effectively converted the variable rate refunding bonds to fixed rates. The refunding component of this bond issue was used to advance refund (defease) $502,400,000 of outstanding *1995 Series A Clean Water, 1997 Capital Improvement, 1997 Series A Public School Building, 1998 Series A Public School Building, 1999 Series A Public Improvement, 2000 Series A Public Improvement, and 2001 Series A Public Improvement Bonds*, with a combined average interest rate of 5.12%. Net proceeds of $558,970,140 resulted from the bond sale. Of the net proceeds amount, $558,443,831 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 State reduced its debt service requirements by $39,046,866 over the next 16 years and obtained an economic gain of $35,604,198. For the variable rate refunding bonds, the change in debt service requirements and economic gain is based on the fixed rate under the swap agreements. At June 30, 2003, the outstanding balance was $459,900,000 for the defeased *1995A Clean Water, 1997 Capital Improvement, 1997A Public School Building, 1998A Public School Building, 1999A Public Improvement, 2000A Public Improvement, and 2001A Public Improvement Bonds.*

Component Units

University of North Carolina System

East Carolina University

On June 19, 2003, the University issued $4,630,000 in *General Revenue Bonds, Series 2003A*, with an average interest rate of 3.27%. The refunding component of this bond issue was used to advance refund (defease) $4,490,000 of outstanding *Athletic Facilities Revenue System Bonds, Series 1994* with a combined average interest rate of 5.37%. Net proceeds of $4,760,416 resulted from the bond sale. Of the net proceeds amount, $4,760,416 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 $220,489 over the next 6 years and obtained an economic gain of $208,518. At June 30, 2003, the outstanding balance was $4,630,000 for the defeased *Athletic Facilities Revenue System Bonds, Series 1994.*

University of North Carolina at Greensboro

On November 14, 2002, the University issued $8,835,000 in *General Revenue Bonds, Series 2002A* with an average interest rate of 5.18%. The refunding component of this bond issue was used to advance refund (defease) $3,395,000 of outstanding *Housing and Dining Revenue Bonds, Series 1993C*, with a combined average interest rate of 5.6%. Net proceeds of $3,194,310 resulted from the bond sale. Of the net proceeds amount, $3,393,266 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 $184,249 over the next 16 years and obtained an economic gain of $132,089. At June 30, 2003 there were no outstanding bonds for the defeased *Housing and Dining Revenue Bonds, Series 1993C.*

University of North Carolina at Asheville

On September 24, 2002, the University issued $18,900,000 in *General Revenue and Refunding Revenue Bonds, Series 2002A* of the Board of Governors of the University of North Carolina with an average interest rate of 4.13%. The refunding component of this bond issue was used to advance refund (defease) $7,245,000 of outstanding *Dorm and Dining Hall System Revenue Bonds, Series B,* with a combined average interest rate of 5.44%. Net proceeds of $19,621,020 resulted from the bond sale. Of the net proceeds amount, $7,692,775 was used to purchase State and Local Government Series securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by $1,132,895 over the next 15 years and obtained an economic gain of $1,132,895. At June 30, 2003 there were no outstanding bonds for the defeased *Dorm and Dining Hall System Revenue Bonds, Series B.*

Fayetteville State University

On November 14, 2002, the University issued $3,980,000 in *Pool General Revenue Bonds, Series 2002B* with an average interest rate of 4.46%. The refunding component of this bond issue was used to advance refund $1,252,708 of outstanding United State Department of Education Notes Payable, with a combined average interest rate of 5.5%. Net proceeds of $1,275,115 resulted from the bond sale. The University reduced its debt service requirements by $81,486 over the next 20 years and obtained an economic gain of $64,044. At June 30, 2003, there was no outstanding balance for the advanced refunded United States Department of Education Note Payable.

University of North Carolina Hospitals

On February 13, 2003 the Hospitals defeased $88,325,000 of outstanding Board of Governors of the University of North Carolina for the University of North Carolina Hospitals at Chapel Hill Revenue Bonds Series 1996 (original issue amount $133,870,000 of which $38,790,000 remain outstanding at June 30, 2003). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the Hospitals Statement of Net Assets. As a result, the Hospitals reduced its debt service requirements by an estimated $11,644,568 over the next 26 years and obtained an economic gain of $6,992,108. Since this is a synthetic fixed rate swap agreement, savings are estimated and will fluctuate dependent upon the basis risk associated with the bond issue. At June 30, 2003 the outstanding balance of the defeased Board of Governors of the University of North Carolina for the University of North Carolina Hospitals at Chapel Hill Revenue Bonds Series 1996 bonds was $88,325,000.

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, 2003, the outstanding balance of current and prior year defeased bonds was $580.35 million for the primary government and $288.83 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 12 years after the date of issuance.

NOTE 8: 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, 2003, total operating lease expenditures were $65.6 million for Primary Government, $28.8 million for Universities, and $5.2 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2003 are (dollars in thousands):

	Operating Leases			**Capital Leases**		
		Component Units			*Component Units*	
Fiscal Year	*Primary Government*	University of North Carolina System	Community Colleges	*Governmental Activities*	University of North Carolina System	Community Colleges
2004	$ 46,730	$ 18,124	$ 4,110	$ 205	$ 988	$ 401
2005	37,276	13,834	3,222	93	923	325
2006	30,308	8,632	1,594	85	173	315
2007	20,309	4,999	1,010	53	16	309
2008	15,142	2,958	493	14	—	292
2009 - 2013	21,415	6,983	604	—	—	1,453
2014 - 2018	11,017	79	—	—	—	—
2019 - 2023	10,306	39	—	—	—	—
2024 - 2028	9,832	23	—	—	—	—
2029 - 2033	8,082	—	—	—	—	—
2034 - 2038	8,082	—	—	—	—	—
2039 - 2043	8,082	—	—	—	—	—
2044 - 2048	8,082	—	—	—	—	—
2049 - 2053	6,466	—	—	—	—	—
Total Future Minimum Lease Payments.........	$ 241,129	$ 55,671	$ 11,033	450	2,100	3,095
Less: Amounts Representing Interest				128	157	771
Present Value of Future Minimum Lease Payments				$ 322	$ 1,943	$ 2,324

At June 30, 2003, fixed assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	*Component Units*	
	Governmental Activities	University of North Carolina System	Community Colleges
Machinery and Equipment................	$ 296	$ 4,320	$ 2,954
Other..	—	874	—
Less: Accumulated Depreciation.....	—	(1,949)	(439)
Total Fixed Assets.........................	$ 296	$ 3,245	$ 2,515

NOTE 9: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $6.35 million due to fiduciary funds is primarily related to local sales taxes collected in the general fund and due to the agency fund. The other balances due from fiduciary funds are primarily for services provided to pension and other employee benefit trust funds. Amounts payable to or receivable from fiduciary funds are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net assets.

Due To/From Other Funds

Balances due to/from other funds at June 30, 2003, consisted of the following (dollars in thousands):

	Due From Other Funds						
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	Total
Due To Other Funds							
General Fund	$ -	$ -	$ -	$ 4,148	$ -	$ 11,812	$ 15,960
Highway Fund	-	-	166	3,666	-	4,459	8,291
Highway Trust Fund	-	54,946	-	-	-	-	54,946
Other Governmental Funds	198	3,000	-	30,888	42	1,239	35,367
Nonmajor Enterprise Funds	-	-	-	2	-	4	6
Internal Service Funds	17	-	-	996	-	1,124	2,137
Total	$ 215	$ 57,946	$ 166	$ 39,700	$ 42	$ 18,638	$ 116,707

These balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the funds as interfund receivables and payables were eliminated in the governmental and business-type activities columns of the government-wide statement of net assets, except for the net residual amounts due between governmental and business-type activities, which were presented as internal balances.

Advances To/From Other Funds

The balance of $127.38 million advanced to the General Fund from the Highway Trust Fund was made to meet a constitutional requirement of a balanced budget for the General Fund for the fiscal year ended June 30, 2003. The General Assembly intends to make payments from the General Fund back to the Highway Trust Fund during the fiscal years ending June 30, 2005 through June 30, 2009 including interest at the net rate of return generated by the State Treasurer's Short Term Investment Fund.

The balance of $2.35 million advanced to the Highway Fund from the Highway Trust Fund resulted from a loan made to the Division of Motor Vehicles to provide funds to pay the charges for telecommunications services associated with the emissions inspection and maintenance program that accrued during the 2001 calendar year. This advance will be repaid with interest at a rate equal to the average annual yield that the State Treasurer obtains on investment of funds in the Highway Trust Fund.

B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2003 consisted of the following (dollars in thousands):

	Transfers Out								
Transfers In	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Internal Service Funds	Total
General fund	$ —	$ 54,494	$ 252,687	$ 226,919	$ 2,957	$ 128	$ 1,003	$ 53	$ 538,241
Highway fund	22,648	—	298,342	—	—	—	—	—	320,990
Other governmental funds	330,728	147,771	—	238,848	8,364	3	2,423	20	728,157
Unemployment compensation fund	553	—	—	18	—	—	—	—	571
EPA revolving loan fund	29	—	—	7,317	—	—	—	—	7,346
Other enterprise funds	2,000	—	—	43	—	—	—	—	2,043
Internal service funds	504	—	—	174	—	—	—	—	678
Total	$ 356,462	$ 202,265	$ 551,029	$ 473,319	$ 11,321	$ 131	$ 3,426	$ 73	$ 1,598,026

Transfers are primarily used to (1) transfer revenues and bond proceeds from the fund required by State statute or budget to collect the revenue to the fund required by State statute or budget to expend them, (2) provide unrestricted revenues collected in the general fund to finance operating and capital programs accounted for in other funds in accordance with budgetary authorizations, and (3) reflect reversions of State funds from other funds to the general fund in accordance with Office of State Budget and Management requirements.

When the Highway Trust Fund was created in 1989, the revenue from the sales tax on motor vehicles was transferred from the General Fund to the Highway Trust Fund. To offset a portion of this revenue loss in the General Fund, the Highway Trust Fund is required to transfer funds to the General Fund each year. The total transfer for this fiscal year was $250 million.

In order to meet the constitutional requirement for a balanced budget for the General Fund, the General Assembly, as part of The Current Operations, Capital Improvements, and Finance Act of 2002, identified resources to meet spending requirements. Among these resources were transfers from various funds to the General Fund including $97.4 million from other governmental funds and $750 thousand from enterprise funds.

NOTE 10: 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, 2003, are (dollars in thousands):

	Governmental Funds			
	General Fund	*Highway Fund*	*Other Governmental Funds*	*Total Governmental Funds*
Specific encumbrances.............	$ 5,724	$ 3,530	$ —	$ 9,254
Inventories................................	55,396	2,875	24,197	82,468
Investments...............................	45	—	14	59
Wildlife endowment...................	—	—	52,230	52,230
Notes receivable........................	1,892	137	242,052	244,081
Vacation, sick leave...................	—	40,184	—	40,184
Retirees' health premiums..........	47,057	—	—	47,057
Prepaid items.............................	—	—	71	71
Continuing programs.................	56,058	—	—	56,058
Capital projects..........................	—	—	32,069	32,069
Loan and grant commitments.....	—	1,845	207,338	209,183
Other purposes..........................	—	1,854	64,257	66,111
Total reserved fund balance.	$ 166,172	$ 50,425	$ 622,228	$ 838,825

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 $353.365 million at June 30, 2003. As shown in the table below, the fund balance available to be designated was a negative $333.127 million on a modified accrual basis at June 30, 2003 (dollars in thousands):

Unreserved Designated Fund Balance	General Fund
Higher education...	$ 43,246
Agriculture..	606
Subsequent year budget...............................	160,529
Primary and secondary education.................	16,706
General government programs.....................	6,727
Health and human services programs...........	99,251
Public safety, corrections, and regulation programs.............................	10,988
Repairs and renovations...............................	15,000
Environment and natural resources..............	312
Total designations...	$ 353,365
Unreserved fund balance..............................	$ (333,127)

NOTE 11: RETIREMENT PLANS

The State reports ten retirement plans as pension trust funds. This note describes the eight defined benefit public employee retirement plans administered by the State. The remaining plans, described in Note 12, 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 eight 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 plans do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Note 15 and the *Required Supplementary Information* section of this *CAFR*. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

A. Plan Descriptions and Contribution Information

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

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, 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, 2003, the number of participating local boards of education and component unit employers was 196 as shown below:

Local boards of education	117
Community colleges	58
University of North Carolina System	17
Proprietary component units	4

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially required employer contribution established by legislation. For the period July 1, 2002 through June 30, 2003, there was no required employer contribution and none was made. 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.

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, 2002 through June 30, 2003, the State made the actuarially based required contribution of 11.92% of covered payroll. 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 actuarially based employer contributions. For the period July 1, 2002 through June 30, 2003, there was no required contribution and none was made. 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.

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, 2003, there were 1,492 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 any of its 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. 127A-40 and may be amended only by the North Carolina General Assembly.

6. *REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND*

This plan is cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is composed of registers who are retired from the Local Governmental Employees' Retirement System or an equivalent local plan and have met the statutory eligibility requirements. At June 30, 2003, 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 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 section B of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

Benefits and administrative expenses are funded by 4.5% of the receipts collected by each County Commission under Article 3 of Chapter 161 of the General Statutes and investment income. Registers do not contribute. The actuarially required contribution and percentage of that contribution actually made is in the *Required Supplementary Information* section of this report. All benefit and contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS

7. *SHERIFFS' SUPPLEMENTAL PENSION FUND*

This plan is cost-sharing, multiple-employer, defined benefit 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 Employees' Retirement System and have met the statutory eligibility requirements. At June 30, 2003, there were 84 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. If the plan purchases any investments, they are held as part of the State Treasurer's Investment Pool. Section B of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

Receipts collected by each county's Clerk of Superior Court under General Statute 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. Sheriffs do not contribute to the plan. For the year ended June 30, 2003, the Clerks remitted $736,006. All benefit and contribution provisions are established by General Statute 143-166 and may be amended only by the North Carolina General Assembly. Because of its size, the plan does not currently have actuarial valuations performed.

8. *LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM*

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities. At June 30, 2003, the number of participating local governments was 895, as shown below:

Cities	413
Counties	100
Special districts	382

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. All employers contribute 5.27% of covered payroll for law enforcement officers and 4.80% for general employees and firemen. In addition, employers with an unfunded liability, which is established when the government initially enters the system, must make additional contributions towards that liability. The State's only cost is administration. Benefit and contribution provisions are established by G.S. 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

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

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

	Teachers' and State Employees'	Judicial	Legislative	Firemen's, Rescue	National Guard	Registers of Deeds'	Local Govern-mental
Employee Groups							
Retirees and beneficiaries currently receiving benefits	118,129	401	205	8,602	2,165	67	32,951
Terminated employees entitled to benefits but not yet receiving them	58,510	59	81	156	8,651	1	18,294
Active plan members	296,377	489	169	31,221	7,125	96	117,654
Total	473,016	949	455	39,979	17,941	164	168,899
Date of Valuation	*12-31-02*	*12-31-02*	*12-31-02*	*6-30-02*	*12-31-02*	*12-31-02*	*12-31-02*

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 that result from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

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, 2002 (June 30, 2002, 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.

							Actuarial Assumptions	
Retirement System	*Valuation Date*	*Actuarial Cost Method*	*Amortization Method*	*Remaining Amortization Period*	*Period Open/Closed*	*Asset Valuation Method*	*Investment Rate of Return*	*Projected Salary Increase*
Teachers' and State Employees'	12/31/02	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	5.45-12.08%
Consolidated Judicial	12/31/02	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.63-12.58%
Legislative	12/31/02	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's, Rescue Squad Workers'	6/30/02	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
National Guard	12/31/02	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
Registers of Deeds'	12/31/02	Entry age	Level dollar	30 years	Open	5 year smoothed	7.25%	5.45-12.08%
Local Governmental Employees'	12/31/02	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, Legislative system, and Consolidated Judicial system reflect a 1.28% cost of living increase for retirees in these systems. In addition, the valuation for the Local Governmental Employees' system increased the benefit accrual rate from 1.82% to 1.85% and gave retirees of this system a significant cost of living increase. An increase of 2.0% was given to all retirees with catch up adjustments (depending upon retirement date) effectively increasing retirement checks between 3.5% and 9.5%. The Firemen's and Rescue Squad Workers' Fund increased retirement benefits by $2 (from $156 to $158). All of the benefit enhancements listed in this paragraph reflect legislation enacted by the North Carolina General Assembly effective July 1, 2003.

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 (ARC) for the fiscal year ended June 30, 2003, 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, 2000, the Legislative system was valued at December 31, 2001, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2001. The Registers of Deeds' used the December 31, 1999 valuation for the ARC. These valuations used amortization periods of 2 years for the Registers of Deeds', 9 years for Consolidated Judicial, 9 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 11 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.

For the fiscal year ended June 30, 2003, the Local Governmental Employees' system provided a 1.4% cost of living increase for retirees and an increase in the benefit accrual rate from 1.81% to 1.82%. The Teachers' and State Employees' system, Legislative Retirement system and the Consolidated Judicial system provided a 1.4% cost of living increase for retirees in these systems. All of these benefit enhancements reflect legislation enacted by the North Carolina General Assembly that was effective July 1, 2002. These enhancements were either reflected as liabilities in the December 31, 2001 valuations, or the systems paid 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	$ 5,993,000	$ —	$ 6,856,179	$ 1,132,455
Interest on net pension obligation	159,000	(2,676)	68,224	46,595
Adjustment to annual required contribution	(282,000)	9,069	(145,975)	(96,254)
Annual pension cost	5,870,000	6,393	6,778,428	1,082,796
Contributions made	5,993,000	—	6,856,179	—
Increase (decrease) in net pension obligation	(123,000)	6,393	(77,751)	1,082,796
Net pension (asset) obligation beginning of year	2,191,000	(36,911)	941,027	642,685
Net pension (asset) obligation end of year	$ 2,068,000	$ (30,518)	$ 863,276	$ 1,725,481

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, 2001 through June 30, 2003 (in thousands)

	Teachers' and State Employees'	*Judicial*	*Legislative*	*Firemen's, Rescue*	*National Guard*
Primary Government:					
2003	$ —	$ 5,870	$ 6	$ 6,778	$ 1,083
2002	50,835	6,852	844	9,942	1,542
2001	103,530	9,071	925	12,105	2,075
Component units:					
Universities:					
2003	$ —				
2002	24,829				
2001	48,151				
Community Colleges:					
2003	$ —				
2002	9,676				
2001	19,489				
Proprietary Funds:					
2003	$ —				
2002	333				
2001	704				
Total Primary Government and Component Units:					
2003	$ —	$ 5,870	$ 6	$ 6,778	$ 1,083
2002	85,673	6,852	844	9,942	1,542
2001	171,874	9,071	925	12,105	2,075
Percentage of APC Contributed:					
2003		102%	0%	101%	0%
2002		124%	114%	101%	58%
2001		58%	51%	92%	100%
Percentage of ARC Contributed:					
2003	No ARC				
2002	100%				
2001	100%				
Net Pension (Asset) Obligation:					
2003		$ 2,068	$ (31)	$ 863	$ 1,725
2002		2,191	(37)	941	643
2001		3,832	84	1,026	—

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Yearly pension liabilities for the systems are shown in the *Required Supplementary Information* 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.

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, 2003, the Plan had 9,201 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 $53,074,965 for the 2002-03 fiscal year. Annual covered payroll was $775,949,779 and employer contributions expressed as a percentage of annual covered payroll were 6.84% for the fiscal year ended June 30, 2003. Employee contributions expressed as a percentage of annual covered payroll were 6%, with actual employee contributions of $46,556,987 for the 2002-03 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, 2003, the State and its component units paid $10,321,063 for 838 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each affected state agency or paid from the component unit’s operations. These benefits are established in G.S. 143-166.41 and may be amended only by the General Assembly.

NOTE 12: 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 and other employee benefit 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 an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. Members of the Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the Plan are the responsibility of the participants.

The Plan is a defined contribution pension plan 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, 2002, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan's financial statements are prepared using the accrual basis of accounting. Investments are reported at fair value. Securities and mutual funds are based on published quotations while bank investment contracts are stated at contract value. Notes Receivable represent loans to participants and are reported at outstanding principal balances. 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, 2002, 52 state agencies and component units along with 463 local governmental units outside our reporting entity contributed the required 5%. In addition, 368 local government employers contributed to the Plan on a voluntary basis.

At December 31, 2002, the Plan disclosed the following investments (at fair value) exceeding five percent of the Plan's net assets:

Fidelity Magellan Fund	$ 661,015,250
BB&T Bank Investment Contracts	327,650,542
BB&T Money Market Fund	276,929,632
Fidelity Equity-Income Fund	267,116,849
Spartan U.S. Equity Index Fund	155,917,084
Fidelity Intermediate Bond Fund	120,792,827

The Plan also reported total member contributions of $178,280,474. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2002, amounted to $132,484,444 for the State, $15,157,775 for universities, and $984,751 for the other miscellaneous component units. The required 5% employer's contribution was made by the State for $6,624,222, by universities for $757,988, and by the remaining component units for $49,237. In addition, the State contributed $516,545 for the required court cost assessments.

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTE 13: 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, 2003, the number of participants currently eligible to receive health care as an other postemployment benefit are 48,060 TSERS and DIPNC members (excluding LEA members), 288 CJRS members, 145 LRS members, and 940 UEORP members. The health insurance plan is the same as for active employees as described in Note 14, 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, 2003, the Reserve paid $2,232.48 for each Medicare-eligible long-term disability beneficiary and retiree and $2,932.56 for each non-Medicare-eligible long-term disability beneficiary and retiree. At June 30, 2003, the Reserve had net assets at fair value of $47,056,785. The net assets are available for future benefit payments.

For the fiscal year ended June 30, 2003, contributions on behalf of former employees of the reporting entity were made to the Reserve as follows:

Primary government	$	60,752,038
University of North Carolina System		48,731,301
Community Colleges		11,998,379
Certain participating proprietary component units		399,367
Total contributions	$	121,881,085

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 14, 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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 fiscal year ended June 30, 2003, 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, 2002 (the most recent actuarial valuation date), DIPNC had 2,766 members, excluding LEA members, who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 306,247 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.

Actuarial Assumptions for the calendar year ended December 31, 2002:		
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	$	22,701,357
Actual contribution made by:		
Primary Government	$	13,259,038
University of North Carolina System		6,719,877
Community Colleges		2,633,161
Certain participating proprietary component units		89,281
Total actual contribution made	$	22,701,357

The basis for estimating the actuarial liabilities for unpaid claims is discussed in Note 14. The market related actuarial value of the assets of DIPNC at December 31, 2002, was $275,967,008 creating an actuarial deficit of $2,696,561. The actual fair value of the assets for DIPNC at December 31, 2002 was $295,388,543. The assets are available for future other postemployment benefits and benefits for eligible active employees.

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

NOTE 14: 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 106 out of 117 LEAs and 28 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 4 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 2003	Fiscal Year 2002
Unpaid claims at beginning of year	$ 1,192	$ 5,675
Incurred claims:		
Provision for insured events of the current year	2,796	775
Increases (decreases) in provision for insured events of prior years	(106)	(983)
Total incurred claims	2,690	(208)
Payments:		
Claims attributable to insured events of the current year	2,218	786
Claims attributable to insured events of the prior years	(49)	3,489
Total payments	2,169	4,275
Total unpaid claims at end of the year	$ 1,713	$ 1,192

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than $10 million per occurrence are covered by reinsurance policies. Total payments by the Fund over $20 million a year (March 20, 2002 - March 20, 2003) are covered by reinsurance policies. Maximum recoverable from one catastrophic event is $100 million per occurrence. Annual aggregate limits of $400 million apply separately with respect to flood and earthquake. Coverage applies to all "all risk" perils. Boiler and machinery coverage can be purchased under separate contract underwritten by the Fund. 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 13, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on 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):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001-02	$ 191,327	$ 1,152,116	$ 1,181,943	$ 161,500
2002-03	161,500	1,320,649	1,325,397	156,752

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 July 1, 2002 to June 30, 2003, 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 proprietary component units and LEAs contributed .16% of active employees' salaries to fund the Death Benefit Plan for the period July 2002 to June 2003.

These benefits are established by Chapter 135, Section 5(l), of the General Statutes and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported).

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001-02	$ 1,570	$ 25,387	$ 25,380	$ 1,577
2002-03	1,577	23,921	23,419	2,079

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units, and 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 13, 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 13. Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001-02	$ 271,067	$ 44,422	$ 44,722	$ 270,767
2002-03	270,767	65,051	57,154	278,664

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, 2003 are disclosed on the balance sheet as claims payable. Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	*Current-Year Claims and Changes in Estimates*	*Claim Payments*	*Balance at Fiscal Year-End*
2001-02	$ 675	$ 1,032	$ 608	$ 1,099
2002-03	1,099	1,619	1,522	1,196

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 the 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. As of July 1, 2002 through April 30, 2003, the Trust Fund provided coverage on a claims made basis of $7,000,000 for each and every claim and for the next $10,000,000 per claim/annual aggregate. As of May 1, 2003, the Trust Fund provides coverage on a claims made basis of $7,000,000 for each and every claim. As of July 1, 2002, the Trust Fund purchased an excess policy on a claims made basis for $40,000,000 of coverage above the self insured retention applicable to that policy year through April 30, 2003. As of May 1, 2003, the Trust Fund had no excess of loss reinsurance coverage. 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 $26,957,828 and $35,657,865 are the present values of the aggregate actuarially determined claims liabilities of $27,676,450 and $39,177,608, discounted at 6% at June 30, 2002 and 2003, respectively. These estimates are reviewed annually, and as adjustments become necessary, such adjustments are reflected in current operations. Claims against participants are paid from the corpus of the Trust Fund. Changes in the Trust Fund's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	*Current-Year Claims and Changes in Estimates*	*Claim Payments*	*Balance at Fiscal Year-End*
2001-02	$ 29,598	$ 9,037	$ 11,677	$ 26,958
2002-03	26,958	16,941	8,241	35,658

3. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides $11 million excess insurance over the $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 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, 2003, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	$	55,280
University of North Carolina System		5,002
All other component units		26
Total	$	60,308

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, 2003 was $2 million. As of June 30, 2003, the Fund consisted of 1,234 eligible units representing approximately 41,010 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, 2003, 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 $1,650,000 limit for employer's liability above the Program's retention of $350,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 2003, there are claims recoverable from reinsurers in the amount of $258,485.

The liability for the fiscal year ended June 30, 2002 was restated from what was disclosed in the 2002 CAFR. The following schedule shows the changes in the reported liability for the past two fiscal years (dollars in thousands):

	Beginning of Fiscal Year Liability	*Current-Year Claims and Changes in Estimates*	*Claim Payments*	*Balance at Fiscal Year-End*
2001-02	$ 8,818	$ 1,297	$ 3,184	$ 6,931
2002-03	6,931	5,215	3,813	8,333

7. Health Insurance Program for Children

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

Coverage is provided from federal funds received, State funds appropriated, and other nonappropriated funds made available for this purpose. All appropriations, allocations, premium receipts, or any other receipts, including earnings on investments, occurring or arising in connection with acute medical care benefits provided under the Program are deposited into the Child Health Insurance Fund (the Fund). Disbursements from the Fund include any and all amounts required to pay the benefits and administrative costs of the Program. For the fiscal year ended June 30, 2003, $42,715,756 was appropriated from the General Fund to the North Carolina Department of Health and Human Services (DHHS) to be used for the Program.

The Program is administered by DHHS. Eligible children may be enrolled by the Division of Social Services based on the availability of funds. The North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan (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.

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 90,652 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):

	Beginning of Fiscal Year Liability	*Current-Year Claims and Changes in Estimates*	*Claim Payments*	*Balance at Fiscal Year-End*
2001-02	$ 12,195	$ 97,497	$ 94,734	$ 14,958
2002-03	14,958	150,236	151,576	13,618

NOTE 15: 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, 2003 are presented below (dollars in thousands).

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2003
(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	$ 28,289	$ 561	$ 34	$ 464	$ 54	$ 9,681	$ 279,433
Investments:							
Annuity contracts	—	—	—	—	—	—	—
Bank investment contracts	—	—	—	—	—	—	381,473
Mutual funds	—	—	—	—	—	—	1,372,517
State Treasurer investment pool	43,214,843	330,291	26,366	253,080	46,444	11,872,264	—
Securities lending collateral	10,476,010	80,260	6,398	61,574	11,267	2,880,864	—
Receivables:							
Accounts receivable	820	—	—	—	—	921	120
Interest receivable	512	5	—	5	1	122	1,678
Contributions receivable	47,079	724	21	—	—	35,010	7,971
Notes receivable	—	—	—	—	—	—	115,440
Capital assets-depreciable, net	—	—	—	—	—	—	—
Total Assets	53,767,553	411,841	32,819	315,123	57,766	14,798,862	2,158,632
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable	—	—	—	—	—	—	1,186
Benefits payable	8,961	18	—	—	1	142	—
Medical claims payable	—	—	—	—	—	—	—
Obligations under securities lending	10,476,010	80,260	6,398	61,574	11,267	2,880,864	—
Due to other funds	—	—	—	2	—	—	—
Deferred revenue	—	—	—	—	—	—	—
Accrued vacation leave	—	—	—	—	—	—	—
Total Liabilities	10,484,971	80,278	6,398	61,576	11,268	2,881,006	1,186
Net Assets:							
Held in trust for:							
Employees' pension and other benefits	43,282,582	331,563	26,421	253,547	46,498	11,917,856	2,157,446
Total Net Assets	$ 43,282,582	$ 331,563	$ 26,421	$ 253,547	$ 46,498	$ 11,917,856	$ 2,157,446

A schedule of funding progress for each defined benefit plan is presented on page 142.

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	Registers of Deeds' Supplemental Pension Fund	*Totals*
$ 1,317	$ 4,885	$ 123,054	$ 4,373	$ 1,099	$ 430	$ 453,674
270,731	—	—	—	—	—	270,731
—	—	—	—	—	—	381,473
240,610	—	—	—	—	—	1,613,127
—	249,786	—	297,938	—	18,884	56,309,896
—	136,795	129,033	161,993	895	10,390	13,955,479
179	46	2,000	2,562	—	—	6,648
—	15	587	22	3	1	2,951
1,493	1,511	—	4,427	—	335	98,571
—	—	—	—	—	—	115,440
—	—	1	—	—	—	1
514,330	393,038	254,675	471,315	1,997	30,040	73,207,991
27	128	16,035	—	—	—	17,376
—	2,079	—	278,664	—	—	289,865
—	—	156,752	—	—	—	156,752
—	136,795	129,033	161,993	895	10,390	13,955,479
—	—	3	—	—	—	5
—	—	22,240	—	—	—	22,240
—	—	44	—	—	—	44
27	139,002	324,107	440,657	895	10,390	14,441,761
514,303	254,036	(69,432)	30,658	1,102	19,650	58,766,230
$ 514,303	$ 254,036	$ (69,432)	$ 30,658	$ 1,102	$ 19,650	$58,766,230

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2003
(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	$ 4,971	$ 6,267	$ 4	$ —	$ —	$ 236,274	$ 104,777
Members	657,778	3,395	276	2,632	—	255,340	178,281
Other contributions	—	—	—	6,856	—	—	—
Total contributions	662,749	9,662	280	9,488	—	491,614	283,058
Investment Income:							
Investment earnings (loss)	3,097,291	24,683	2,160	19,689	3,659	935,031	(332,147)
Less investment expenses	(164,742)	(1,269)	(105)	(998)	(181)	(45,399)	—
Net investment income (loss)	2,932,549	23,414	2,055	18,691	3,478	889,632	(332,147)
Other additions:							
Fees, licenses and fines	—	—	—	—	—	4,443	1,815
Interest earnings on loans	—	—	—	—	—	—	7,650
Miscellaneous	1,376	—	—	1	—	89	—
Total other additions	1,376	—	—	1	—	4,532	9,465
Total additions	3,596,674	33,076	2,335	28,180	3,478	1,385,778	(39,624)
Deductions:							
Claims and benefits	2,028,357	17,877	1,330	16,428	2,107	436,649	114,199
Refund of contributions	70,419	5	27	474	—	47,095	—
Administrative expenses	6,991	52	15	591	32	2,464	5,476
Other deductions	3	—	—	—	—	—	—
Total deductions	2,105,770	17,934	1,372	17,493	2,139	486,208	119,675
Change in net assets	1,490,904	15,142	963	10,687	1,339	899,570	(159,299)
Net assets — July 1	41,791,678	316,421	25,458	242,860	45,159	11,018,286	2,316,745
Net assets — June 30	$ 43,282,582	$ 331,563	$ 26,421	$ 253,547	$ 46,498	$ 11,917,856	$ 2,157,446

Deferred Compensation	Death Benefit Plan of N.C.	State Health Plan	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	*Totals*
$ —	$ 19,615	$ 1,113,285	$ 56,923	$ 736	$ 3,397	$ 1,546,249
26,481	—	259,882	—	—	—	1,384,065
—	8,328	—	—	—	—	15,184
26,481	27,943	1,373,167	56,923	736	3,397	2,945,498
(50,121)	35,217	9,659	42,484	69	2,484	3,790,158
—	(1,556)	(2,109)	(1,882)	(14)	(111)	(218,366)
(50,121)	33,661	7,550	40,602	55	2,373	3,571,792
—	988	1,188	—	—	—	8,434
—	—	—	—	—	—	7,650
—	—	—	—	—	—	1,466
—	988	1,188	—	—	—	17,550
(23,640)	62,592	1,381,905	97,525	791	5,770	6,534,840
38,966	23,921	1,309,165	65,051	876	737	4,055,663
—	—	—	—	—	—	118,020
1,682	467	42,716	440	—	—	60,926
—	—	49	—	84	—	136
40,648	24,388	1,351,930	65,491	960	737	4,234,745
(64,288)	38,204	29,975	32,034	(169)	5,033	2,300,095
578,591	215,832	(99,407)	(1,376)	1,271	14,617	56,466,135
$ 514,303	$ 254,036	$ (69,432)	$ 30,658	$ 1,102	$ 19,650	$ 58,766,230

NOTE 16: SEGMENT INFORMATION

Primary Government. 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.

Component Unit. The North Carolina Housing Finance Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with revenue bond proceeds. These proceeds are used to purchase single family home and rental property mortgage loans which provide the income along with investment earnings to repay the debt.

Condensed financial statements for the Town of Butner water and sewer system and the two segments of the North Carolina Housing Finance Agency as of and for the fiscal year ended June 30, 2003 are presented below (dollars in thousands).

	Town of Butner Water and Sewer	N.C. Housing Finance Agency	
		Home Ownership	Rental
Condensed Statement of Net Assets			
Assets:			
Current assets	$ 9,096	$ 39,719	$ 14,499
Capital assets-nondepreciable	17,849	—	—
Capital assets-depreciable, net	6,129	—	—
Other assets	5,505	1,234,527	184,162
Total assets	38,579	1,274,246	198,661
Liabilities:			
Current liabilities	4,663	28,100	3,308
Noncurrent liabilities	9,433	1,111,448	149,922
Total liabilities	14,096	1,139,548	153,230
Net assets:			
Invested in capital assets, net of related debt	17,128	—	—
Restricted	1,053	134,698	45,431
Unrestricted	6,302	—	—
Total net assets	$ 24,483	$ 134,698	$ 45,431
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating revenues (pledged against bonds)	$ 3,973	$ 79,184	$ 14,979
Depreciation expense	(635)	—	—
Other operating expenses	(2,342)	(69,536)	(10,429)
Operating income	996	9,648	4,550
Nonoperating revenues (expenses):			
Investment earnings	281	—	—
Interest expense	(110)	—	—
Other nonoperating revenues (expenses)	(49)	—	—
Capital contributions	1,178	—	—
Transfers out	(274)	(93)	—
Change in net assets	2,022	9,555	4,550
Beginning net assets	22,461	125,143	40,881
Ending net assets	$ 24,483	$ 134,698	$ 45,431
Condensed Statement of Cash Flows			
Net cash provided (used) by:			
Operating activities	$ 1,421	$ 129,083	$ 9,255
Noncapital financing activities	(274)	(103,572)	(14,013)
Capital and related financing activities	(2,712)	—	—
Investing activities	3,229	(72,159)	10,592
Net increase (decrease)	1,664	(46,648)	5,834
Beginning cash and cash equivalents	6,003	120,728	2,374
Ending cash and cash equivalents	$ 7,667	$ 74,080	$ 8,208

NOTE 17: COMPONENT UNITS — FINANCIAL INFORMATION

Financial statements for component unit funds as of and for the fiscal year ended June 30, 2003 are presented below (dollars in thousands).

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 and cash equivalents	$ 306	$ 1,908,334	$ 122,147	$ 132,597	$ 265,124	$ 39,462	$ 2,467,970
Investments	324,969	874,026	11,002	220,425	282,370	25,214	1,738,006
Receivables, net	1	454,369	68,527	20,856	21,784	7,831	573,368
Due from component units	—	2,162	1,622	—	348	—	4,132
Due from primary government	—	107,637	33,807	—	36,391	—	177,835
Inventories	—	51,565	13,169	—	21	1,136	65,891
Prepaid items	18	5,465	856	26	838	784	7,987
Notes receivable	—	88,301	513	1,196,208	1,338,685	11,464	2,635,171
Endowment investments	—	1,135,124	12,256	—	—	—	1,147,380
Deferred charges	—	9,575	—	—	7,608	809	17,992
Capital assets-nondepreciable	—	1,060,833	221,922	155	—	66,134	1,349,044
Capital assets-depreciable, net	24	3,375,386	840,925	435	8,891	165,829	4,391,490
Total Assets	325,318	9,072,777	1,326,746	1,570,702	1,962,060	318,663	14,576,266
LIABILITIES							
Accounts payable and accrued liabilities	10,403	408,055	33,883	7,696	441	3,335	463,813
Medical claims payable	—	5,649	—	—	—	—	5,649
Interest payable	—	10,542	—	6,944	3,269	18	20,773
Short-term debt	—	19,000	—	—	—	—	19,000
Due to component units	4,132	—	—	—	—	—	4,132
Due to primary government	197	912	48	2	—	7,488	8,647
Unearned revenue	—	97,483	4,533	546	—	967	103,529
Advance from primary government	—	—	—	—	—	34,251	34,251
Obligations under reverse repurchase agreements	—	106,709	—	—	—	—	106,709
Deposits payable	—	6,709	—	2,400	—	1,159	10,268
Funds held for others	—	458,688	9,338	—	95,219	—	563,245
Long-term liabilities:							
Due within one year	—	185,847	7,011	24,275	1,010	1,575	219,718
Due in more than one year	—	1,529,442	37,392	1,261,713	1,301,449	20,793	4,150,789
Total Liabilities	14,732	2,829,036	92,205	1,303,576	1,401,388	69,586	5,710,523
NET ASSETS							
Invested in capital assets, net of related debt	24	3,049,253	1,055,688	590	8,891	197,589	4,312,035
Restricted for:							
Nonexpendable:							
Higher education	—	621,692	21,281	—	—	—	642,973
Expendable:							
Higher education	—	1,261,804	89,648	—	547,682	—	1,899,134
Health and human services	—	—	—	—	—	3,118	3,118
Economic development	—	—	—	255,530	—	—	255,530
Other purposes	—	—	—	—	—	1,065	1,065
Unrestricted	310,562	1,310,992	67,924	11,006	4,099	47,305	1,751,888
Total Net Assets	$ 310,586	$ 6,243,741	$ 1,234,541	$ 267,126	$ 560,672	$ 249,077	$ 8,865,743

NOTES TO THE FINANCIAL STATEMENTS

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	$ 18,325	$ 5,305,778	$ 1,240,257	$ 219,038	$ 112,053	$ 180,843	$ 7,076,294
Program revenues:							
Charges for services	—	3,105,445	233,766	225,959	58,939	41,362	3,665,471
Operating grants and contributions	11,592	525,884	377,875	—	34,188	9,031	958,570
Capital grants and contributions	—	74,472	69,957	—	—	1,565	145,994
Net program (expense) revenue	(6,733)	(1,599,977)	(558,659)	6,921	(18,926)	(128,885)	(2,306,259)
Non-tax general revenues:							
State operating aid	86,628	1,674,708	573,114	16,035	36,391	120,432	2,507,308
State capital aid	—	358,452	76,498	—	—	34,608	469,558
Miscellaneous	—	4,737	—	—	—	487	5,224
Total non-tax general revenues	86,628	2,037,897	649,612	16,035	36,391	155,527	2,982,090
Contributions to endowments	—	28,120	647	—	—	—	28,767
Change in net assets	79,895	466,040	91,600	22,956	17,465	26,642	704,598
Net assets, July 1, as restated	230,691	5,777,701	1,142,941	244,170	543,207	222,435	8,161,145
Net assets, June 30	$ 310,586	$ 6,243,741	$ 1,234,541	$ 267,126	$ 560,672	$ 249,077	$ 8,865,743

Significant Balances and 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:							
Due from (due to) component units	$ (4,132)	$ 2,162	$ 1,622	$ —	$ 348	$ —	$ —
Grant revenue (expense)	(5,656)	2,537	2,375	—	347	397	—
UNC System operating aid	—	(7,980)	—	—	7,980	—	—

Intra-Entity Balances — Between Primary Government and Component Units

	Due From Component Units				Due From Primary Government			
	General Fund	Other Governmental Funds	Other Funds	Total	University of North Carolina System	Community Colleges	State Education Assistance Authority	Total
Due To Component Units:								
General Fund	$ —	$ —	$ —	$ —	$ 3,146	$ —	$ —	$ 3,146
Other Governmental Funds	—	—	—	—	104,491	33,807	36,391	174,689
Due To Primary Government:								
Golden LEAF Foundation	7	190	—	197	—	—	—	—
University of North Carolina System	—	2	910	912	—	—	—	—
Community Colleges	—	—	48	48	—	—	—	—
N.C. Housing Finance Agency	—	—	—	—	—	—	—	—
Other Component Units	3,399	4,088	1	7,488	—	—	—	—
Total	$ 3,406	$ 4,280	$ 959	$ 8,645	$ 107,637	$ 33,807	$ 36,391	$ 177,835

NOTE 18: 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 supercomputing, 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.

NOTE 19: 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, 2003, was $4.7 billion with interest rates varying from 2.00 % to 7.57 %.

The North Carolina Capital Facilities Finance Agency is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industry (in connection with manufacturing) where there is a favorable impact on employment or pollution control commensurate with the size and cost of the facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education. Its authority to issue bonds and notes includes financing private sector capital improvements for activities that constitute a public purpose. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2042, the outstanding principal of such bonds and notes as of June 30, 2003, was $1.3 billion with fixed interest rates varying from 2.4% to 7.4% 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 Supreme Court has accepted the case and oral argument was heard on September 10, 2003. The magnitude of State resources which may ultimately be required cannot be determined at this time, however, the total cost could exceed $100 million.

***N.C. School Boards Association, et. al. v. 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. This case was argued in the Court of Appeals in February, 2003.

The last 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 $97.3 million. A liability of $8 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. On June 16, 2003, the Court accepted jurisdiction of the case and the State filed an answer and motion to dismiss on August 21, 2003. On November 17, 2003, the motion to dismiss was denied, and the U.S. Supreme Court appointed a special master with authority to determine when additional pleadings will be filed in the case.

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, finding that the plantiffs lacked standing and plaintiffs appealed to the Court of Appeals. The Court of Appeals affirmed this dismissal on December 3, 2002. The Supreme Court, on June 13, 2003, reversed the Court of Appeals on the standing issue and remanded the case to the Court of Appeals with instructions to reconsider procedural issues which were raised, but not addressed, in the court's prior opinion.

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. Tolso*n – 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.

***Goldston v. State of North Carolina* – Highway Trust Fund Transfers.** On November 14, 2002, a lawsuit was filed in Wake County Superior Court demanding that $80 million transferred by the Governor from the Highway Trust Fund to the General Fund for purposes of balancing the State budget be returned to the Highway Trust Fund. The suit further alleges that actions of the General Assembly regarding the transfer of funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes. The North Carolina Attorney General's Office believes that sound legal arguments support the defense of this action and has filed a Motion to Dismiss. Plaintiff's motion for a preliminary injunction was denied on February 5, 2003.

Edward N. Rodman, et al. v. State of North Carolina, et al. On April 25, 2003, Edward N. Rodman and four other citizens filed suit in the Superior Court of Wake County against the State of North Carolina and the Secretary of Revenue challenging the constitutionality of retroactively applying the 2001 increase in the highest rate of North Carolina's state income tax to the entire 2001 tax year. Plaintiffs seek refunds, for themselves and a proposed class of similarly situated taxpayers, of all taxes paid for the year 2001 in excess of the prior 7.75% maximum rate, on the theory that a retroactive midyear tax increase violates the state and federal constitutions. Plaintiffs claim the total amount of taxes involved exceeds $76 million, plus interest. The North Carolina Attorney General's office has filed a Motion to Dismiss and believes sound legal arguments support dismissal of the case.

Medical Mutual Insurance Corporation of North Carolina v. The Board of Governors of the University of North Carolina and its Constituent Institution, East Carolina University, the East Carolina School of Medicine, et al. On March 18, 2003, Medical Mutual Insurance Corporation of North Carolina (MMICNC) filed this action in Wake County Superior Court against the Board of Governors of the University of North Carolina (UNC), East Carolina University Brody School of Medicine (ECUBSOM), and various doctors who are or might be defendants in actions or claims made covered by medical malpractice insurance policies ECUBSOM purchased for their benefit from MMICNC. MMICNC claims additional insurance premiums for medical malpractice policies provided for healthcare professionals employed at the East Carolina University Brody School of Medicine. In 1990, MMICNC and ECUBSOM entered into a five year Purchase Agreement under which MMICNC agreed to provide and ECUBSOM agreed to purchase annual medical malpractice insurance policies for ECUBSOM's healthcare professionals. The premiums for those insurance policies were set under a Retrospective Rating Plan under which the parties agreed ECUBSOM would pay half of the "maximum premium" for schools of medicine approved by the Department of Insurance, subject to adjustment based on a complex formula which included a large deductible and ECUBSOM's loss experience. The Purchase Agreement was twice renewed for five additional year in 1994 and 1999. Under the original agreement and the amendments, ECUBSOM purchased insurance from MMICNC for approximately thirteen years. In 2002, in order to raise additional capital, MMICNC demanded that all policy holders purchase guaranteed capital shares under threat of termination or nonrenewal of policies. While ECUBSOM had some shares in MMICNC from an earlier capital call, it did not believe that it could expend State funds to purchase the additional capital shares which were valued at approximately $400,000. In the face of MMICNC's demand, ECUBSOM decided to purchase insurance for all but a handful of its healthcare professionals from another insurance company. In this lawsuit, MMICNC claims that ECUBSOM's decision not to purchase insurance for all its healthcare professionals from MMICNC constitutes an election to terminate the insurance Purchase Agreement and invoke a commutation clause included in the Retrospective Rating Plan. According to MMICNC, as a result of ECUBSOM's decision to elect to terminate and commute its obligations under the Retrospective Rating Plan it now must pay MMICNC a sum equal to the highest one month maximum premium MMICNC could ever have charged ECUBSOM during the past thirteen years times the number of months the Retrospective Rating Plan was in existence. According to MMICNC, that sum equals $26.7 million. ECUBSOM believes that MMICNC is not entitled to any further payments form ECUBSOM. MMICNC has made an arbitration demand in addition to filing suit, which ECUBSOM has resisted. Settlement discussions are in progress.

State v. Waterfall Investment Group, LLC. On October 24, 2000 the State filed an eminent domain proceeding against the defendants and deposited $12 million as its estimation of the value of the 2,223 acres, taken by the State. It is anticipated that defendant will attempt to present evidence of valuation in amounts as much as $34 million. Trial is set for August 2003.

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, 2003, the State is unable to estimate what liabilities may result from such audits except for the settlement with the U.S. Department of Justice and the U.S. Department of Health and Human Services which is explained in the subsequent event footnote (Note 22).

D. Highway Construction

The State may be liable for approximately $82.29 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional $9.05 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 $41.93 million.

E. USDA-Donated Commodities

The State has custodial responsibility for $2.87 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, 2003, 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 $434.8 million relates to the Highway Trust Fund. The other commitments for construction and improvements of State government facilities totaled $362.6 million (including $337.5 million for the Department of Environment and Natural Resources, $4.6 million for the Department of Correction, and $3.4 million for the Department of Health and Human Services).

At June 30, 2003, the University of North Carolina System (component unit) had outstanding construction commitments of $529.4 million (including $110.3 million for North Carolina State University, $80.7 million for University of North Carolina - Charlotte, $55.7 million for Appalachian State University, $48.8 million for University of North Carolina – Chapel Hill and $29.8 million for UNC Hospitals).

At June 30, 2003, community colleges (component units) had outstanding construction commitments of $130.8 million (including $17.9 million for Central Piedmont Community College, $14.2 million for Sandhills Community College, $10.5 million for Wake Technical Community College and $9.1 million for Guilford Technical Community College).

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 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.

NOTE 20: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2003, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 38, *Certain Financial Statement Note Disclosures (paragraphs 12 through 15)*
- GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets.*

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements. Paragraphs 12 through 15 of the standard became effective this fiscal year. These paragraphs impact disclosures related to short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers. Paragraphs 6 through 11 of the standard were implemented in the previous fiscal year.

GASB Technical Bulletin No. 2003-1 supercedes Technical Bulletin No. 94-1 and applies to derivatives that are not reported at fair value on the statement of net assets. This standard provides an updated definition of derivatives and also requires disclosure of the government's objective for entering into the derivative and the derivative's terms, fair value, associated debt, and risk exposures.

NOTE 21: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The amounts in the "Fund Reclassifications" column consist of changes resulting from the State's decision to reclassify clean water revolving loan funds from special revenue funds to an enterprise fund. The amounts in the "Other Adjustments" column are due primarily to the correction of errors related to prior periods.

	July 1, 2002 Fund Equity As Previously Reported	Fund Reclassifications	Other Adjustments	July 1, 2002 Fund Equity as Restated
Primary Government				
Major Governmental Funds:				
General Fund	$ (348,551)	$ —	$ (237)	$ (348,788)
Highway Fund	410,177	—	—	410,177
Highway Trust Fund	425,985	—	—	425,985
Other Governmental Funds:				
Special Revenue Funds	2,417,106	(520,369)	58,204	1,954,941
Capital Projects Funds	123,856	—	1	123,857
Permanent Funds	50,119	—	2,011	52,130
Total Governmental Funds	3,078,692	(520,369)	59,979	2,618,302
Internal Service Funds	208,516	—	(147)	208,369
Government-wide adjustments:				
Capital assets	22,252,268	(125)	(15,202)	22,236,941
Unavailable deferred revenues	228,786	—	—	228,786
Long-term debt	(3,709,692)	211	(170)	(3,709,651)
Accrued interest payable	(43,898)	—	—	(43,898)
Pension assets	37	—	—	37
Total Government-wide adjustments	18,727,501	86	(15,372)	18,712,215
Total Governmental Activities	$ 22,014,709	$ (520,283)	$ 44,460	$ 21,538,886
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	$ 793,118	$ —	$ —	$ 793,118
EPA Revolving Loan Fund	—	520,283	—	520,283
Other enterprise funds	93,065	—	1,287	94,352
Total Business-type Activities - Enterprise Funds	$ 886,183	$ 520,283	$ 1,287	$ 1,407,753
Component Units				
Golden LEAF Foundation	$ 230,691	$ —	$ —	$ 230,691
University of North Carolina System	5,788,476	—	(10,775)	5,777,701
Community Colleges	1,175,089	—	(32,148)	1,142,941
NC Housing Finance Agency	244,170	—	—	244,170
State Education Assistance Authority	543,207	—	—	543,207
Other component units	222,435	—	—	222,435
Total Component Units	$ 8,204,068	$ —	$ (42,923)	$ 8,161,145

NOTE 22: SUBSEQUENT EVENTS

Swap Agreements Relating to Variable Rate General Obligation Bonds

As a means to lower its borrowing costs, the State entered in to an interest rate swap agreement on June 24, 2003, effective July 1, 2003, in connection with the $355 million principal amount of the State's variable rate bonds issued in May 2002. Under the swap agreement with the counterparty, the State is obligated to pay the counterparty each year 1.06% times the then-outstanding principal amount of the bonds and the counterparty is obligated to pay the BMA-Municipal Swap Index Rate for a term of two years ending on July 1, 2005, and extendable for one additional year at the option of the counterparty.

Lease-Purchase Revenue Bonds

On July 15, 2003, the State through the NC Infrastructure Finance Corporation (Corporation), a blended component unit of the State, sold $218,405,000 Lease-Purchase Revenue Bonds, Series 2003, (Revenue Bonds) the proceeds of which will be used to provide funds, together with any other available funds, for the purpose of acquiring three approximately 1,000-cell close security correctional facilities located in Alexander, Anson, and Scotland counties, and paying certain costs incurred in connection with the execution and delivery of the Revenue Bonds. The Revenue Bonds are limited obligations of the Corporation, payable solely from the lease payments and additional payments made by the State pursuant to a lease-purchase agreement dated as of July 1, 2003 (Agreement) between the State and the Corporation. The State's obligations under the Agreement are subject to appropriation. Interest on the bonds will be payable semiannually on each April 1 and October 1, beginning October 1, 2003. The bonds will mature, subject to optional and extraordinary redemption provisions, from October 1, 2004 through 2023 with amounts varying from $40,000 to $23.4 million.

No deficiency judgment may be rendered against the State in any action for breach of any contractual obligation under the governing documents, and the taxing power of the State or any agency, department or commission of the State is not pledged directly or indirectly to secure any moneys due to the owners of the Revenue Bonds.

Federal Repayable Advances

In July 2003, the State received repayable advances of $26.9 million from the Federal Unemployment Account (FUA) (see Note 6, Short-term Debt) to finance an operating deficit in the State's unemployment compensation fund. The advances for July were repaid by August 4, 2003 as employer contribution taxes became available, and the State did not receive additional advances from the FUA until September 15, 2003. From September 15 through September 26, 2003 the State took additional advances of $34.6 million. These advances were repaid in full by September 29, 2003, in accordance with the policy that advances taken from January 1 to September 30, which are repaid in full on or before September 30, are considered cash flow advances and do not accrue interest provided that the State does not take additional advances from October 1 through December 31 (of same calendar year). The State does not plan to take additional FUA advances through December 31, 2003. The September advances of $34.6 million from the FUA were repaid with proceeds from tax anticipation notes issued by the State in September 2003 – see Tax Anticipation Notes below.

General Obligation Refunding Bonds

On August 6, 2003, the State sold $326.710 million of general obligation refunding bonds consisting of $91 million Series 2003D Refunding Bonds and $235.710 million Series 2003E Refunding Bonds. These bonds are dated August 1, 2003 and will bear interest from that date. Interest on the bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2004. The Bonds will mature from February 1, 2004 to 2013, inclusive, and were issued at rates ranging from 2.00% to 5.00%. The Bonds were issued for the purpose of providing funds to refund in advance of their maturities (1) the $39.7 million outstanding aggregate amount of the State's Prison and Youth Service Facilities Bonds, Series B maturing on and after June 1, 2004, (2) the $52.670 million outstanding aggregate amount of the State's Prison and Youth Service Facilities Refunding Bonds, Series C maturing on and after March 1, 2004, and (3) the $244.5 million outstanding aggregate principal amount of the State's Capital Improvement Bonds, Series A maturing on and after February 1, 2005.

Bond Purchase Agreement

On August 7, 2003, the North Carolina Housing Finance Agency, a major component unit of the State, signed a bond purchase agreement under the 1998 Home Ownership Trust Indenture for Series 16A and 16B bonds in the amount of $30 million and the 16C variable rate bonds in the amount of $20 million. The Agency delivered these bonds on September 16, 2003. Also, on November 4, 2003, the North Carolina Housing Finance Agency issued under the 1992 Multifamily Revenue Refunding Bonds for Series C in the amount of $14.065 million and the Series D taxable interest bonds in the amount of $23.015 million, refunding the 1992 Multifamily Revenue Bonds Series B. Also, on November 14, 2003, the North Carolina Housing Finance Agency issued under the 1998 Home Ownership Trust Indenture for Series 17A and 17B bonds in the amount of $33.280 million and the Series 17C variable rate bonds in the amount of $20 million.

Tax Anticipation Notes

The State is authorized by the Constitution to borrow in anticipation of the collection of taxes due and payable within the current fiscal year an amount not exceeding 50% of such taxes. In September 2003, the State issued $150 million in tax anticipation notes with a maturity date of June 30, 2004. On December 9, 2003, the State issued an additional note for $73 million, if needed, with the same maturity date. As of December 10, 2003, the state has drawn down $150 million on the tax anticipation notes. The State will use unemployment tax receipts to repay these notes.

N.C. Department of Health and Human Services settlement agreement with U.S. Department of Justice and U.S. Department of Health and Human Services.

The Child Care Subsidy audit and settlement agreement on the use of Title IV-E training funds were finalized on September 18, 2003. Under the terms of the settlement agreement, the State agreed to pay a settlement amount of $20 million to the United States as follows. The State paid $10 million on October 3, 2003, and the remaining unpaid balance of $10 million shall accrue interest at the federal judgment rate on the date of the signing of the agreement, which was 1.22%, from the date of the signing until the settlement amount is fully paid. Until the settlement amount is fully paid, the State shall make minimum installment payments each year of $2.5 million no later than June 30 of each year, with the first installment due on or before June 30, 2004. Each installment payment will be applied first to accrued interest, and then to principal. The entire balance of the settlement amount, plus accrued interest, will be due and payable no later than June 30, 2007.

The North Carolina Attorney General's Office was of the opinion that the terms of the settlement agreement were, given the underlying facts and attendant circumstances, reasonable, and that it was appropriate for the State to enter in to the settlement agreement.

Hurricane Isabel

Hurricane Isabel came ashore near Ocracoke on the Outer Banks of North Carolina on September 18, 2003. The storm hammered the fragile Outer Banks and raked across the northeastern portion of the state causing widespread destruction to homes, businesses and farms. Forty-seven of the state's 100 counties were declared disaster areas. Preliminary damage estimates show nearly 200 homes destroyed and more than 1,500 damaged. In the first six weeks following the storm, more than $73 million in federal and state disaster assistance to individuals, households, local governments and private non-profits has been approved. The federal government covers 75 percent of the costs; the state pays the other 25 percent. Losses to agricultural crops, livestock and farm buildings are estimated at $155 million. The damage to timber in the state is estimated at $565 million with more than 833,000 acres sustaining some level of damage.

General Obligation Highway Bonds

On November 19, 2003, the State sold $400 million of general obligation highway bonds. These bonds are dated December 1, 2003 and will bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1, commencing May 1, 2004. The Bonds will mature from May 1, 2005 to 2020, inclusive, and were issued at rates ranging from 3.00% to 5.00%. The Bonds were issued for the purpose of providing funds to reimburse the State for capital costs of (i) urban loops, (ii) highways in the Intrastate System, and (iii) projects constituting a part of the State secondary highway system resulting in the paving of unpaved roads.

University of North Carolina at Chapel Hill, General Revenue Bonds

On December 1, 2003, the Board of Governors of the University of North Carolina offered The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2003, in the amount of $128,475,000. Interest on the Bonds is payable on each December 1 and June 1, commencing June 1, 2004. The bonds will mature, subject to optional redemption, from December 1, 2004 to December 1, 2033 with amounts varying from $1,255,000 due December 1, 2004 to $31,350,000 Term Bonds due December 1, 2033. The Bonds are being issued primarily to finance or refinance the costs of certain capital projects at The University of North Carolina at Chapel Hill.

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Required Supplementary Information

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

June 30, 2003

(Expressed in Thousands)

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a) NOTE 1	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-02	$ 43,226,837	$ 39,863,983	$ (3,362,854)	108.4%	$ 9,734,448	(34.6)%
	12-31-01	42,104,086	37,713,663	(4,390,423)	111.6%	9,494,603	(46.2)%
	12-31-00 A	39,773,747	35,248,770	(4,524,977)	112.8%	9,001,354	(50.3)%
	12-31-99 A	36,119,250	32,787,108	(3,332,142)	110.2%	8,437,649	(39.5)%
	12-31-98 A	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%
Consolidated Judicial	12-31-02	$ 323,384	$ 301,031	$ (22,353)	107.4%	$ 48,432	(46.2)%
	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 B	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)%
Legislative	12-31-02	$ 25,304	$ 19,243	$ (6,061)	131.5%	$ 3,668	(165.2)%
	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)%
Firemen's, Rescue Squad Workers'	6-30-02	$ 239,918	$ 249,316	$ 9,398	96.2%	N/A	N/A
	6-30-01	225,276	230,796	5,520	97.6%	N/A	N/A
	6-30-00 B	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	142,169	173,030	30,861	82.2%	N/A	N/A
National Guard	12-31-02	$ 46,769	$ 58,943	$ 12,174	79.3%	N/A	N/A
	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 B	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
Registers of Deeds' ***NOTE 2***	12-31-02	$ 16,325	$ 11,673	$ (4,652)	139.9%	$ 4,767	(97.6)%
	12-31-01	12,887	11,648	(1,239)	110.6%	4,736	(26.2)%
	12-31-99	9,227	10,859	1,632	85.0%	4,406	37.0%
	12-31-98	7,780	10,002	2,222	77.8%	4,060	54.7%
	12-31-97	6,575	10,057	3,482	65.4%	3,926	88.7%
Local Governmental Employees'	12-31-02	$ 11,393,460	$ 11,462,706	$ 69,246	99.4%	$ 3,746,396	1.9%
	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 B	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%

NOTE 1 a negative UAAL denotes excess actuarial asset
NOTE 2 No valuation was done for 12-30-0

A- For 12-31-98, legislation directed the 5-yer smoothed market value to be capped at 77% of actual market valu The 2001 Session of the General Assembly removed this cap. These asset values were adjusted or restated for the effects of these changes.

B- 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 109.

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

For the Six-Year Period 1998 to 2003 (July 1 to June 30)

(Expressed in Thousands)

Retirement System	*State Fiscal Year*	*Annual Required Contribution*	*Percentage Contributed*
Teachers' and State Employees'	2003	$ —	NR
	2002	196,003	100%
	2001	513,907	76%
	2000	735,393	100%
	1999	630,049	100%
	1998	610,377	100%
Consolidated Judicial	2003	$ 5,993	100%
	2002	7,003	100%
	2001	9,071	75%
	2000	8,435	100%
	1999	7,263	100%
	1998	8,485	100%
Legislative	2003	$ —	NR
	2002	858	97%
	2001	861	71%
	2000	811	100%
	1999	770	104%
	1998	741	108%
Firemen's, Rescue Squad Workers'	2003	$ 6,856	100%
	2002	10,027	100%
	2001	12,105	92%
	2000	12,105	100%
	1999	12,105	100%
	1998	11,735	100%
National Guard	2003	$ 1,132	0%
	2002	1,542	58%
	2001	2,075	100%
	2000	2,545	100%
	1999	2,533	100%
	1998	2,533	100%
Registers of Deeds'	2003	$ 1,722	197%
	2002	1,722	128%
	2001	1,826	98%
	2000	1,739	87%
Local Governmental Employees'	2003	$ 233,753	100%
	2002	192,170	100%
	2001	179,238	100%
	2000	168,201	100%
	1999	157,764	100%
	1998	149,058	100%

NR- No contribution required or made.

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 1(

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, 2003

(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Individual income	$ 7,270,200	$ 7,270,200	$ 7,088,527	$ (181,673)
Corporate income	822,870	822,870	840,500	17,630
Sales and use	4,016,800	4,016,800	3,922,822	(93,978)
Franchise	405,930	405,930	429,128	23,198
Insurance	379,900	379,900	408,873	28,973
Beverage	172,300	172,300	170,897	(1,403)
Inheritance	104,000	104,000	112,504	8,504
Other	142,920	142,920	143,980	1,060
Non-Tax:				
Fees, licenses and fines	136,180	136,180	124,734	(11,446)
Investment income	115,972	115,972	105,079	(10,893)
Disproportionate share receipts	107,000	107,000	107,000	—
Federal funds for fiscal relief	—	—	136,859	136,859
Other	263,428	263,428	262,403	(1,025)
Transfers in	392,700	392,700	392,760	60
Departmental:				
Federal funds	6,632,554	8,258,591	7,009,745	(1,248,846)
Local funds	860,281	907,258	834,851	(72,407)
Inter-agency grants and allocations	7,168	64,383	34,948	(29,435)
Intra-governmental transactions	757,908	2,106,612	1,746,178	(360,434)
Sales and services	62,616	64,062	60,532	(3,530)
Rental and lease of property	4,322	9,737	8,825	(912)
Fees, licenses and fines	181,887	186,587	184,661	(1,926)
Contributions, gifts and grants	22,401	39,395	24,526	(14,869)
Miscellaneous	21,507	88,710	27,678	(61,032)
Universities	595,552	756,134	741,032	(15,102)
Total Revenues	23,476,396	26,811,669	24,919,042	(1,892,627)
Expenditures:				
Current:				
General government	334,017	513,746	500,066	13,680
Primary and secondary education	6,602,594	7,147,036	6,848,489	298,547
Higher education	839,834	896,765	816,870	79,895
Health and human services	11,046,087	12,610,163	11,383,439	1,226,724
Environment and natural resources	309,447	334,976	287,224	47,752
Economic development	105,052	126,881	96,866	30,015
Public safety, corrections, and regulation	1,499,676	2,273,475	1,768,669	504,806
Transportation	10,903	10,885	10,522	363
Agriculture	70,814	81,598	74,902	6,696
Capital outlay	31,158	31,158	31,158	—
Debt service	300,017	300,867	294,552	6,315
Universities	2,351,693	2,509,015	2,415,741	93,274
Total Expenditures	23,501,292	26,836,565	24,528,498	2,308,067
Excess revenues over (under) expenditures	(24,896)	(24,896)	390,544	415,440
Transfers from reserves	21,214	21,214	21,214	—
Transfers to reserves	—	—	(165,000)	(165,000)
Unreserved fund balances (budgetary basis) at July 1, 2002	3,786	3,786	3,786	—
Unreserved fund balances (budgetary basis) at June 30, 2003	$ 104	$ 104	$ 250,544	$ 250,440

BUDGETARY REPORTING

A. General Fund Budgetary Process

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

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

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. Special Fund Budgetary Process

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

C. Reconciliation of Budget/GAAP Reporting Differences

The *Schedule of Revenues, Expenditures and Changes in 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, 2003 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

	General Fund
Unreserved fund balance (budgetary basis), June 30, 2003	$ 250,544
Reserved fund balance (budgetary basis),	
Savings	150,000
Repairs and renovation	15,000
Budgetary shortfall	160,529
Disproportionate share	1,511
Retirees' health premium	26,314
Fund balance (budgetary basis)	$ 603,898
Reconciling Adjustments:	
Entity Differences:	
Primary government:	
Other	221,894
Basis Differences:	
Accrued revenues:	
Taxes receivable	827,616
Accounts receivable	138,837
Federal funds, net	557,684
Other receivables	122,797
Less:	
Tax refunds payable	(960,104)
Deferred revenue	(463,241)
Total accrued revenues	223,589
Accrued expenditures:	
Medical claims payable	(718,686)
Accounts payable and accrued liabilities	(470,496)
Other payables	(142,101)
Total accrued expenditures	(1,331,283)
Other Adjustments:	
Notes receivable	4,369
Inventories	55,396
Investments	45
Timing Differences:	
Authorized carryforward for specific encumbrances	5,724
Authorized carryforward for designated programs	49,413
Fund balance (GAAP basis) June 30, 2003	($166,955)

D. Budgetary Reserves

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

Savings Reserve Account (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 in the amount of $150 million were transferred to the Savings Reserve Account from the unreserved credit balance on June 30, 2003 in accordance with Session Law 2003-284, House Bill 397, Section 2.2(e).

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 in the amount of $15 million were transferred to the Repair and Renovations Reserve Account from the unreserved credit balance on June 30, 2003 in accordance with Session Law 2003-284, House Bill 397, Section 2.2(f).

Clean Water Management Trust Fund (G.S. 143-15.2 through 143-15.3B). Effective July 1, 2001, in accordance with Session Law 1999, House Bill 1840, Section 7.7(b), the reservation of 6.5% of any unreserved credit balance remaining in the General Fund, was repealed.

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 specifc 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 and 2002-03 the State received dividends from the North Carolina Railroad Company of $9.5 million and $22.1 million, respectively, thus reducing the outstanding obligation to zero.

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

Funds in the amount of $1.5 million in excess of the budget of $107 million were transferred to this reserve on June 30, 2003.

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 2002-03, this reserve had a balance of $296 million. During the fiscal year, under direction from the Governor's Office, the reserve balance was transferred to the Easley Executive Order Number 22 Reserve. Therefore, the Disaster Relief Reserve ended FY 2002-03 with a balance of zero.

Easley Executive Order No. 22 Reserve. On June 27, 2002, Governor Easley signed Executive Order Number 22. This executive order became effective July 1, 2002 and ordered that the Office of State Budget and Management (OSBM), as directed by the Governor, take any steps necessary to insure that a deficit not be incurred for the fiscal year 2002-03. Therefore, in anticipation of total expenditures exceeding total receipts for fiscal year 2003-03, the Governor directed the transfer of the Disaster Relief Reserve balance to the Easley Executive Order No. 22 Reserve. The June 30, 2003 balance in this reserve was $160.5 million, after transfers of $135.5 million to fund disaster relief programs.

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, 2002	**Increases** Transfers from General Fund Unreserved Fund Balance	**(Decreases)** Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2003
Savings.............................	$ —	$ 150,000	$ —	$ 150,000
Retirees' health premium...	50,810	—	(24,496)	26,314
Repairs and renovations....	—	15,000	—	15,000
N.C. Railroad acquisition...	22,081	—	(22,081)	—
Disproportionate share.......	—	1,511	—	1,511
Disaster relief....................	45,450	—	(45,450)	—
Exec. Order #22................	250,571	—	(90,042)	160,529
Total..................................	$ 368,912	$ 166,511	$ (182,069)	$ 353,354

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COMBINING FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2003 — *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	*Total Nonmajor Governmental Funds*
ASSETS				
Cash and cash equivalents	$ 1,606,622	$ 121,483	$ 419	$ 1,728,524
Investments	481,516	—	—	481,516
Securities lending collateral	807,993	—	31,652	839,645
Receivables, net:				
Taxes receivable	2,160	—	—	2,160
Accounts receivable	27,429	455	—	27,884
Intergovernmental receivable	4,668	2,677	—	7,345
Interest receivable	5,577	3	2	5,582
Other receivables	15	—	—	15
Due from other funds	39,352	348	—	39,700
Due from component units	4,280	—	—	4,280
Inventories	24,197	—	—	24,197
Prepaid items	71	—	—	71
Advances to component units	24,242	—	—	24,242
Notes receivable	242,052	—	—	242,052
Securities held in trust	35,846	—	—	35,846
Endowment investments	—	—	59,494	59,494
Total Assets	$ 3,306,020	$ 124,966	$ 91,567	$ 3,522,553
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilitie				
Accounts payable	$ 76,354	$ 7,548	$ —	$ 83,902
Accrued payroll	1,256	—	—	1,256
Intergovernmental payable	9,111	623	—	9,734
Claims payable	24,305	—	—	24,305
Obligations under securities lending	807,993	—	31,652	839,645
Due to other funds	35,312	55	—	35,367
Due to component units	174,689	—	—	174,689
Deferred revenue	19,523	—	—	19,523
Deposits payable	7	—	—	7
Funds held for others	36,079	—	—	36,079
Total Liabilities	1,184,629	8,226	31,652	1,224,507
Fund Balances:				
Reserved	537,153	32,063	53,012	622,228
Unreserved	1,584,238	84,677	6,903	1,675,818
Total Fund Balance	2,121,391	116,740	59,915	2,298,046
Total Liabilities and Fund Balances	$ 3,306,020	$ 124,966	$ 91,567	$ 3,522,553

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

For the Fiscal Year Ended June 30, 2003 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	*Total Nonmajor Governmental Funds*
Revenues:				
Taxes:				
Individual income tax	$ 486	$ —	$ —	$ 486
Sales and use tax	13,914	—	—	13,914
Gasoline tax	26,848	—	—	26,848
Insurance tax	8,253	—	—	8,253
Other taxes	108,142	—	—	108,142
Federal funds	285,058	19,966	—	305,024
Local funds	14,828	—	—	14,828
Investment earnings	109,904	53	8,581	118,538
Interest earnings on loans	7,165	—	—	7,165
Sales and services	118,362	237	111	118,710
Rental and lease of property	3,088	15	—	3,103
Fees, licenses, and fines	137,956	—	1,654	139,610
Contributions, gifts, and grants	37,181	19,263	13	56,457
Funds escheated	41,369	—	—	41,369
Miscellaneous	16,254	938	28	17,220
Total revenues	928,808	40,472	10,387	979,667
Expenditures:				
Current:				
General government	48,058	—	—	48,058
Primary and secondary education	176,506	—	—	176,506
Higher education	471,860	—	55	471,915
Health and human services	62,705	—	3	62,708
Economic development	306,909	—	—	306,909
Environment and natural resources	336,150	—	361	336,511
Public safety, corrections, and regulation	303,984	—	—	303,984
Agriculture	8,790	—	—	8,790
Capital outlay	—	104,379	—	104,379
Debt service:				
Debt issuance costs	148	—	—	148
Total expenditures	1,715,110	104,379	419	1,819,908
Excess revenues over (under) expenditures	(786,302)	(63,907)	9,968	(840,241)
Other Financing Sources (Uses):				
Bonds issued	711,600	—	—	711,600
Certificates of participation issued	17,500	—	—	17,500
Premium on debt issued	22,237	—	—	22,237
Discount on debt issued	(28)	—	—	(28)
Sale of capital assets	4,338	10	—	4,348
Transfers in	664,514	63,643	—	728,157
Transfers out	(464,273)	(6,863)	(2,183)	(473,319)
Total other financing sources (uses)	955,888	56,790	(2,183)	1,010,495
Net change in fund balances	169,586	(7,117)	7,785	170,254
Fund balances — July 1, as restated (Note 21)	1,954,941	123,857	52,130	2,130,928
Increase (decrease) in reserve for related assets	(3,136)	—	—	(3,136)
Fund balances — June 30	$ 2,121,391	$ 116,740	$ 59,915	$ 2,298,046

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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
NC Infrastructure Finance Corporation
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
Wireless 911 Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2003

(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	$ 49,429	$ 91,149	$ 8,593	$ 28,557	$ 31,788	$ 624,190	$ 52,741	$ 119,023
Investments	460,493	—	—	—	—	—	—	—
Securities lending collateral	275,856	74,215	6,997	—	—	—	42,942	97,557
Receivables, net:								
Taxes receivable	—	—	—	—	—	—	—	—
Accounts receivable	—	—	31	—	—	—	41	—
Intergovernmental receivable	—	—	—	—	—	—	—	—
Interest receivable	154	307	—	27	30	611	237	374
Other receivables	—	—	—	—	—	—	—	—
Due from other funds	—	—	—	—	—	—	—	—
Due from component units	4,088	—	—	—	—	—	—	—
Inventories	—	—	—	—	—	—	—	—
Prepaid items	—	—	—	—	—	—	—	—
Advances to component units	24,242	—	—	—	—	—	—	—
Notes receivable	—	—	—	—	—	—	—	—
Securities held in trust	—	—	—	—	—	—	—	—
Total Assets	$ 814,262	$ 165,671	$ 15,621	$ 28,584	$ 31,818	$ 624,801	$ 95,961	$ 216,954
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities								
Accounts payable	$ —	$ 48	$ 4	$ —	$ —	$ —	$ —	$ 1,946
Accrued payroll	—	—	—	—	—	—	—	—
Intergovernmental payable	—	—	—	—	—	—	—	2,215
Claims payable	24,305	—	—	—	—	—	—	—
Obligations under securities lending	275,856	74,215	6,997	—	—	—	42,942	97,557
Due to other funds	—	2	—	—	—	30,360	—	27
Due to component units	36,391	—	—	—	—	104,491	—	—
Deferred revenue	9,582	—	—	—	—	—	—	—
Deposits payable	—	—	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—	—	—
Total Liabilities	346,134	74,265	7,001	—	—	134,851	42,942	101,745
Fund Balances:								
Reserved for:								
Inventories	—	—	—	—	—	—	—	—
Investments	—	—	—	—	—	—	—	—
Notes receivable	—	—	—	—	—	—	—	—
Prepaid items	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—
Loan and grant commitments	—	—	—	—	—	—	—	115,640
Other purposes	—	—	—	—	—	—	—	—
Unreserved:								
Undesignated	468,128	91,406	8,620	28,584	31,818	489,950	53,019	(431)
Total Fund Balances	468,128	91,406	8,620	28,584	31,818	489,950	53,019	115,209
Total Liabilities and Fund Balances	$ 814,262	$ 165,671	$ 15,621	$ 28,584	$ 31,818	$ 624,801	$ 95,961	$ 216,954

Exhibit C-3

NC Infrastructure Finance Corporation	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
$ —	$ 17,221	$ 61,442	$ 10,385	$ 74,211	$ 10,228	$ 126	$ 4,761	$ 59,116
18,222	1,403	—	—	—	—	—	—	—
—	—	—	—	60,424	1,468	—	4,008	28,106
—	—	—	—	—	—	—	1,485	—
—	1,267	62	803	—	353	8	2,735	—
—	489	498	1,147	—	9	—	—	—
—	—	—	—	232	—	—	21	809
—	—	—	15	—	—	—	—	—
—	6,953	—	—	—	—	—	—	—
—	2	—	—	—	—	—	—	—
—	10,481	5,752	287	—	4,189	—	—	—
—	—	—	66	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	98,047	—	—	1,044	119,766
—	—	—	—	—	—	—	—	—
$ 18,222	$ 37,816	$ 67,754	$ 12,703	$ 232,914	$ 16,247	$ 134	$ 14,054	$ 207,797
$ —	$ 2,554	$ 32,842	$ 3,381	$ —	$ 3,264	$ 36	$ 14,386	$ —
—	7	—	674	—	72	—	—	—
—	—	15	720	—	—	—	—	741
—	—	—	—	—	—	—	—	—
—	—	—	—	60,424	1,468	—	4,008	28,106
—	52	—	544	—	390	7	3,000	—
—	—	—	—	—	—	—	—	—
—	40	—	—	—	61	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	2,653	32,857	5,319	60,424	5,255	43	21,394	28,847
—	10,481	5,752	287	—	4,189	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	98,047	—	—	1,044	119,766
—	—	—	66	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	82,557
18,222	—	—	—	—	—	—	—	—
—	24,682	29,145	7,031	74,443	6,803	91	(8,384)	(23,373)
18,222	35,163	34,897	7,384	172,490	10,992	91	(7,340)	178,950
$ 18,222	$ 37,816	$ 67,754	$ 12,703	$ 232,914	$ 16,247	$ 134	$ 14,054	$ 207,797

Continued

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2003 *Exhibit C-3*

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Wireless 911 Fund	Departmental Funds	*Total Nonmajor Special Revenue Funds*
ASSETS					
Cash and cash equivalents	$ 17,743	$ 9,452	$ 56,551	$ 279,916	$ 1,606,622
Investments	—	—	—	1,398	481,516
Securities lending collateral	12,393	7,731	46,039	150,257	807,993
Receivables, net:					
Taxes receivable	—	—	—	675	2,160
Accounts receivable	334	225	4,146	17,424	27,429
Intergovernmental receivable	843	—	—	1,682	4,668
Interest receivable	43	25	171	2,536	5,577
Other receivables	—	—	—	—	15
Due from other funds	—	—	—	32,399	39,352
Due from component units	—	—	—	190	4,280
Inventories	1,083	—	—	2,405	24,197
Prepaid items	—	—	5	—	71
Advances to component units	—	—	—	—	24,242
Notes receivable	—	—	—	23,195	242,052
Securities held in trust	—	—	—	35,846	35,846
Total Assets	$ 32,439	$ 17,433	$ 106,912	$ 547,923	$ 3,306,020
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities					
Accounts payable	$ 665	$ —	$ 6,956	$ 10,272	$ 76,354
Accrued payroll	163	—	—	340	1,256
Intergovernmental payable	—	—	3,325	2,095	9,111
Claims payable	—	—	—	—	24,305
Obligations under securities lending	12,393	7,731	46,039	150,257	807,993
Due to other funds	157	—	1	772	35,312
Due to component units	—	—	—	33,807	174,689
Deferred revenue	—	—	—	9,840	19,523
Deposits payable	—	—	—	7	7
Funds held for others	—	—	—	36,079	36,079
Total Liabilities	13,378	7,731	56,321	243,469	1,184,629
Fund Balances:					
Reserved for:					
Inventories	1,083	—	—	2,405	24,197
Investments	—	—	—	14	14
Notes receivable	—	—	—	23,195	242,052
Prepaid items	—	—	5	—	71
Capital projects	—	—	—	6	6
Loan and grant commitments	—	5,709	—	2,650	206,556
Other purposes	17,978	—	—	28,057	64,257
Unreserved:					
Undesignated	—	3,993	50,586	248,127	1,584,238
Total Fund Balances	19,061	9,702	50,591	304,454	2,121,391
Total Liabilities and Fund Balances	$ 32,439	$ 17,433	$ 106,912	$ 547,923	$ 3,306,020

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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, 2003

(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	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use tax	—	—	—	—	—	—	—	—
Gasoline tax	—	—	—	—	—	—	—	—
Insurance tax	—	—	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—	—	—
Federal funds	—	—	—	—	—	—	—	—
Local funds	—	—	—	—	—	—	—	—
Investment earnings	65,696	5,516	549	438	519	6,319	4,699	6,201
Interest earnings on loans	—	—	—	—	—	—	—	—
Sales and services	—	—	—	—	—	—	—	—
Rental and lease of property	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	1
Funds escheated	41,369	—	—	—	—	—	—	—
Miscellaneous	—	—	—	—	—	—	—	—
Total revenues	107,065	5,516	549	438	519	6,319	4,699	6,202
Expenditures:								
Current:								
General government	5,268	5,840	—	29	29	253	—	—
Primary and secondary education	—	—	—	—	42,245	—	28,109	—
Higher education	36,391	—	—	—	—	357,386	—	—
Health and human services	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	—	—
Environment and natural resources	—	—	—	—	—	—	—	55,440
Public safety, corrections, and regulation	—	—	—	—	—	—	—	—
Agriculture	—	—	4,440	—	—	—	—	—
Debt issuance costs	—	—	—	—	—	—	—	—
Total expenditures	41,659	5,840	4,440	29	42,274	357,639	28,109	55,440
Excess revenues over (under) expenditures	65,406	(324)	(3,891)	409	(41,755)	(351,320)	(23,410)	(49,238)
Other Financing Sources (Uses):								
Bonds issued	—	—	—	—	—	603,255	—	—
Certificates of participation issued	—	—	—	—	—	—	—	—
Premium on debt issued	—	—	—	—	—	21,396	—	—
Discounts on debt issued	—	—	—	—	—	—	—	—
Sale of capital assets	—	—	—	—	—	—	—	—
Transfers in	—	42,300	42,300	—	26,225	—	—	63,063
Transfers out	—	(52,094)	(38,000)	(5,628)	(10,408)	(226,272)	(286)	(69)
Total other financing sources (uses)	—	(9,794)	4,300	(5,628)	15,817	398,379	(286)	62,994
Net change in fund balances	65,406	(10,118)	409	(5,219)	(25,938)	47,059	(23,696)	13,756
Fund balances — July 1, as restated	402,722	101,524	8,211	33,803	57,756	442,891	76,715	101,453
Increase (decrease) in reserve for related assets	—	—	—	—	—	—	—	—
Fund balances — June 30	$ 468,128	$ 91,406	$ 8,620	$ 28,584	$ 31,818	$ 489,950	$ 53,019	$ 115,209

Exhibit C-4

NC Infrastructure Finance Corporation	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
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	17,429	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	134,720	—	847	75,415	—	356
—	—	—	12,709	—	400	—	—	—
27	—	—	—	3,307	93	—	419	1,957
—	—	—	—	—	—	—	19	4,869
—	67,516	1,413	—	—	981	—	—	—
—	—	1,435	—	—	—	—	—	—
—	—	—	2,530	—	1,686	—	8,212	—
—	—	—	6,007	—	4,139	—	—	23
—	—	—	—	—	—	—	—	—
—	277	—	1,444	—	13	—	120	—
27	67,793	2,848	157,410	3,307	8,159	75,415	26,199	7,205
—	—	—	—	—	—	—	—	8
—	—	71,034	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	167,938	11,290	—	76,702	—	22,493
—	—	—	—	—	—	—	50,508	87,937
—	59,898	—	—	—	149,110	—	—	—
—	—	—	—	—	—	—	—	—
148	—	—	—	—	—	—	—	—
148	59,898	71,034	167,938	11,290	149,110	76,702	50,508	110,438
(121)	7,895	(68,186)	(10,528)	(7,983)	(140,951)	(1,287)	(24,309)	(103,233)
—	—	—	—	83,000	—	—	—	25,345
17,500	—	—	—	—	—	—	—	—
605	—	—	—	102	—	—	—	134
(28)	—	—	—	—	—	—	—	—
—	58	394	—	—	2,982	—	—	—
266	202	69,485	10,368	—	142,060	911	5,647	109,230
—	(5,131)	(708)	(84)	(2,349)	(1,782)	(878)	(3,497)	(23,507)
18,343	(4,871)	69,171	10,284	80,753	143,260	33	2,150	111,202
18,222	3,024	985	(244)	72,770	2,309	(1,254)	(22,159)	7,969
—	32,847	35,044	8,002	99,720	9,397	1,345	14,819	170,981
—	(708)	(1,132)	(374)	—	(714)	—	—	—
$ 18,222	$ 35,163	$ 34,897	$ 7,384	$ 172,490	$ 10,992	$ 91	$ (7,340)	$ 178,950

Continued

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

For the Fiscal Year Ended June 30, 2003

Exhibit C-4

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Wireless 911 Fund	Departmental Funds	*Total Nonmajor Special Revenue Funds*
Revenues:					
Taxes:					
Individual income tax	$ —	$ —	$ —	$ 486	$ 486
Sales and use tax	13,914	—	—	—	13,914
Gasoline tax	1,497	—	—	7,922	26,848
Insurance tax	—	—	—	8,253	8,253
Other taxes	—	9,495	34,889	63,758	108,142
Federal funds	8,640	—	—	65,080	285,058
Local funds	189	—	—	1,530	14,828
Investment earnings	870	622	2,642	10,030	109,904
Interest earnings on loans	—	—	—	2,277	7,165
Sales and services	3,020	—	352	45,080	118,362
Rental and lease of property	50	—	—	1,603	3,088
Fees, licenses, and fines	16,952	2,544	—	106,032	137,956
Contributions, gifts, and grants	2,005	—	—	25,006	37,181
Funds escheated	—	—	—	—	41,369
Miscellaneous	43	—	—	14,357	16,254
Total revenues	47,180	12,661	37,883	351,414	928,808
Expenditures:					
Current:					
General government	—	—	—	36,631	48,058
Primary and secondary education	—	—	—	35,118	176,506
Higher education	—	—	—	78,083	471,860
Health and human services	—	—	—	62,705	62,705
Economic development	—	—	—	28,486	306,909
Environment and natural resources	48,204	10,186	—	83,875	336,150
Public safety, corrections, and regulation	—	—	29,646	65,330	303,984
Agriculture	—	—	—	4,350	8,790
Debt issuance costs	—	—	—	—	148
Total expenditures	48,204	10,186	29,646	394,578	1,715,110
Excess revenues over (under) expenditures	(1,024)	2,475	8,237	(43,164)	(786,302)
Other Financing Sources (Uses):					
Bonds issued	—	—	—	—	711,600
Certificates of participation issued	—	—	—	—	17,500
Premium on debt issued	—	—	—	—	22,237
Discounts on debt issued	—	—	—	—	(28)
Sale of capital assets	168	—	—	736	4,338
Transfers in	2,952	—	—	149,505	664,514
Transfers out	(1,486)	(3,365)	(36)	(88,693)	(464,273)
Total other financing sources (uses)	1,634	(3,365)	(36)	61,548	955,888
Net change in fund balances	610	(890)	8,201	18,384	169,586
Fund balances — July 1, as restated	18,840	10,592	42,390	285,889	1,954,941
Increase (decrease) in reserve for related assets	(389)	—	—	181	(3,136)
Fund balances — June 30	$ 19,061	$ 9,702	$ 50,591	$ 304,454	$ 2,121,391

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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, 2003

(Dollars in Thousands)

	Employment and Training Administration Fund				Clean Water Funds			
	Budgeted Amounts			Variance with Final	Budgeted Amounts			Variance with Final
Revenues:	Original	Final	Actual	Budget	Original	Final	Actual	Budget
Departmental:								
Federal funds	$ 29,176	$ 118,183	$ 75,415	$ (42,768)	$ —	$ —	$ —	$ —
Local funds	133	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—
Intra-governmental transactions	76	923	911	(12)	1,950	833	833	—
Sales and services	—	—	—	—	—	—	—	—
Sale, rental and lease of property	—	—	—	—	—	—	—	—
Fees, licenses and fines	—	—	—	—	—	—	—	—
Contributions, gifts and grants	—	—	—	—	—	—	—	—
Miscellaneous	—	—	—	—	—	204	504	300
Total revenues	29,385	119,106	76,326	(42,780)	1,950	1,037	1,337	300
Expenditures:								
Current:								
General government	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—
Environment and natural resources	—	—	—	—	—	—	—	—
Economic development	29,385	120,393	77,526	42,867	1,950	10,360	5,854	4,506
Public safety and corrections	—	—	—	—	—	—	—	—
Total expenditures	29,385	120,393	77,526	42,867	1,950	10,360	5,854	4,506
Excess revenues over (under) expenditures	$ —	$ (1,287)	(1,200)	$ 87	$ —	$ (9,323)	(4,517)	$ 4,806
Unreserved fund balances (budgetary basis) at July 1, 2002			1,288				1,092	
Restatements			—				12,180	
Unreserved fund balances (budgetary basis) at June 30, 2003			$ 88				$ 8,755	

Exhibit C-5

Employment Security Commission Funds				Highway Patrol Fund			
Budgeted Amounts			*Variance with Final*	*Budgeted Amounts*			*Variance with Final*
Original	*Final*	*Actual*	*Budget*	*Original*	*Final*	*Actual*	*Budget*
$ 118,008	$ 136,497	$ 135,905	$ (592)	$ —	$ 1,155	$ 836	$ (319)
11,000	13,000	12,576	(424)	—	700	700	—
2,090	6,063	6,003	(60)	—	934	536	(398)
24,028	20,461	20,454	(7)	133,271	156,471	146,433	(10,038)
—	—	—	—	1,544	1,544	1,060	(484)
—	—	—	—	3,384	3,384	3,034	(350)
—	—	—	—	—	450	451	1
—	—	—	—	—	14	14	—
1,100	1,450	1,447	(3)	1	1	13	12
156,226	177,471	176,385	(1,086)	138,200	164,653	153,077	(11,576)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
156,226	177,471	176,384	1,087	—	—	—	—
—	—	—	—	138,200	164,653	152,693	11,960
156,226	177,471	176,384	1,087	138,200	164,653	152,693	11,960
$ —	$ —	1	$ 1	$ —	$ —	384	$ 384
		3,184				8,036	
		—				2	
		$ 3,185				$ 8,422	

Continued

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, 2003

Exhibit C-5

(Dollars in Thousands)

	Wildlife Resources Commission Fund				Departmental Funds			
	Budgeted Amounts			*Variance with Final Budget*	*Budgeted Amounts*			*Variance with Final Budget*
Revenues:	*Original*	*Final*	*Actual*		*Original*	*Final*	*Actual*	
Departmental:								
Federal funds	$ 5,458	$ 8,527	$ 8,618	$ 91	$ 46,913	$ 117,961	$ 63,127	$ (54,834)
Local funds	—	188	189	1	—	—	26	26
Inter-agency grants and allocations	260	1,388	1,388	—	396	7,743	11,930	4,187
Intra-governmental transactions	32,399	38,855	39,086	231	61,112	86,555	67,503	(19,052)
Sales and services	1,390	2,456	2,990	534	4,318	5,100	3,906	(1,194)
Sale, rental and lease of property	106	189	189	—	86	91	114	23
Fees, licenses and fines	16,446	17,017	17,140	123	78,990	83,906	88,341	4,435
Contributions, gifts and grants	30	154	275	121	4	970	453	(517)
Miscellaneous	128	55	736	681	1,074	1,537	1,881	344
Total revenues	56,217	68,829	70,611	1,782	192,893	303,863	237,281	(66,582)
Expenditures:								
Current:								
General government	—	—	—	—	68,376	146,022	77,603	68,419
Health and human services	—	—	—	—	24,204	48,361	35,146	13,215
Environment and natural resources	56,634	73,327	69,066	4,261	39,792	43,659	34,856	8,803
Economic development	—	—	—	—	28,211	32,204	27,737	4,467
Public safety and corrections	—	—	—	—	31,228	39,055	37,691	1,364
Total expenditures	56,634	73,327	69,066	4,261	191,811	309,301	213,033	96,268
Excess revenues over (under) expenditures	$ (417)	$ (4,498)	1,545	$ 6,043	$ 1,082	$ (5,438)	24,248	$ 29,686
Unreserved fund balances (budgetary basis) at July 1, 2002			16,198				88,630	
Restatements			—				(18,131)	
Unreserved fund balances (budgetary basis) at June 30, 2003			$ 17,743				$ 94,747	

Exhibit C-5

Totals - Budgeted Special Revenue Funds			
Budgeted Amounts			Variance with Final
Original	Final	Actual	Budget
$ 199,555	$ 382,323	$ 283,901	$ (98,422)
11,133	13,888	13,491	(397)
2,746	16,128	19,857	3,729
252,836	304,098	275,220	(28,878)
7,252	9,100	7,956	(1,144)
3,576	3,664	3,337	(327)
95,436	101,373	105,932	4,559
34	1,138	742	(396)
2,303	3,247	4,581	1,334
574,871	834,959	715,017	(119,942)
68,376	146,022	77,603	68,419
24,204	48,361	35,146	13,215
96,426	116,986	103,922	13,064
215,772	340,428	287,501	52,927
169,428	203,708	190,384	13,324
574,206	855,505	694,556	160,949
$ 665	$ (20,546)	20,461	$ 41,007
		118,428	
		(5,949)	
		$ 132,940	

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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
NC Infrastructure Finance Corporation

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

June 30, 2003 *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	NC Infrastructure Finance Corporation	*Total Nonmajor Capital Projects Funds*
ASSETS						
Cash and cash equivalents	$ 118,444	$ 3	$ 2,825	$ —	$ 211	$ 121,483
Receivables, net:						
Accounts receivable	455	—	—	—	—	455
Intergovernmental receivable	2,677	—	—	—	—	2,677
Interest receivable	—	—	3	—	—	3
Due from other funds	348	—	—	—	—	348
Total Assets	$ 121,924	$ 3	$ 2,828	$ —	$ 211	$ 124,966
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities						
Accounts payable	$ 7,533	$ —	$ —	$ —	$ 15	$ 7,548
Intergovernmental payable	623	—	—	—	—	623
Due to other funds	55	—	—	—	—	55
Total Liabilities	8,211	—	—	—	15	8,226
Fund Balances:						
Reserved for:						
Capital projects	31,867	—	—	—	196	32,063
Unreserved:						
Undesignated	81,846	3	2,828	—	—	84,677
Total Fund Balances	113,713	3	2,828	—	196	116,740
Total Liabilities and Fund Balances	$ 121,924	$ 3	$ 2,828	$ —	$ 211	$ 124,966

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

For the Fiscal Year Ended June 30, 2003 *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	NC Infrastructure Finance Corporation	*Total Nonmajor Capital Projects Funds*
Revenues:						
Federal funds	$ 19,955	$ —	$ —	$ —	$ 11	$ 19,966
Investment earnings	—	—	53	—	—	53
Sales and services	237	—	—	—	—	237
Rental and lease of property	15	—	—	—	—	15
Contributions, gifts, and grants	19,263	—	—	—	—	19,263
Miscellaneous	938	—	—	—	—	938
Total revenues	40,408	—	53	—	11	40,472
Expenditures:						
Capital outlay	103,989	—	2	—	388	104,379
Total expenditures	103,989	—	2	—	388	104,379
Excess revenues over (under) expenditures	(63,581)	—	51	—	(377)	(63,907)
Other Financing Sources (Uses):						
Sale of capital assets	10	—	—	—	—	10
Transfers in	62,990	—	—	—	653	63,643
Transfers out	(5,512)	—	(991)	(94)	(266)	(6,863)
Total other financing sources (uses)	57,488	—	(991)	(94)	387	56,790
Net change in fund balances	(6,093)	—	(940)	(94)	10	(7,117)
Fund balances — July 1, as restated (Note 21)	119,806	3	3,768	94	186	123,857
Fund balances — June 30	$ 113,713	$ 3	$ 2,828	$ —	$ 196	$ 116,740

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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, 2003 *Exhibit C-8*

(Dollars in Thousands)

	Wildlife Endowment	Departmental Funds	*Total Nonmajor Permanent Funds*
ASSETS			
Cash and cash equivalents	$ 184	$ 235	$ 419
Receivables, net:			
Interest receivable	1	1	2
Securities lending collateral	31,461	191	31,652
Endowment investments	58,911	583	59,494
Total Assets	$ 90,557	$ 1,010	$ 91,567
LIABILITIES AND FUND BALANCES			
Liabilities:			
Obligations under securities lending	31,461	191	31,652
Total Liabilities	31,461	191	31,652
Fund Balances:			
Reserved for:			
Wildlife endowment	52,230	—	52,230
Loan and grant commitments	—	782	782
Unreserved:			
Undesignated	6,866	37	6,903
Total Fund Balances	59,096	819	59,915
Total Liabilities and Fund Balances	$ 90,557	$ 1,010	$ 91,567

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

For the Fiscal Year Ended June 30, 2003 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment	Departmental Funds	*Total Nonmajor Permanent Funds*
Revenues:			
Investment earnings	$ 8,517	$ 64	$ 8,581
Sales and services	111	—	111
Fees, licenses, and fines	1,654	—	1,654
Contributions, gifts, and grants	13	—	13
Miscellaneous	28	—	28
Total revenues	10,323	64	10,387
Expenditures:			
Current:			
Higher education	—	55	55
Health and human services	—	3	3
Environment and natural resources	361	—	361
Total expenditures	361	58	419
Excess revenues over (under) expenditures	9,962	6	9,968
Other Financing Sources (Uses):			
Transfers out	(2,183)	—	(2,183)
Total other financing sources (uses)	(2,183)	—	(2,183)
Net change in fund balances	7,779	6	7,785
Fund balances — July 1, as restated	51,317	813	52,130
Fund balances — June 30	$ 59,096	$ 819	$ 59,915

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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 Funds

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2003 *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	$ 10,823	$ 4,130	$ 5,882	$ 745	$ 976	$ 10,172	$ 1,298	$ 34,026
Restricted cash and cash equivalents	—	—	—	2	—	—	—	2
Investments	19,473	—	—	—	—	12,628	—	32,101
Restricted investments	—	876	—	—	—	—	—	876
Securities lending collateral	19,142	3,358	—	—	—	14,874	—	37,374
Receivables:								
Accounts receivable, net	—	558	118	3	11	28	7	725
Interest receivable	32	13	—	—	—	29	—	74
Premiums receivable	1,643	—	—	—	—	—	—	1,643
Contributions receivable, net	—	—	—	78	—	—	—	78
Inventories	—	161	50	190	8	—	47	456
Prepaid items	2,432	—	—	86	—	25	—	2,543
Total current assets	53,545	9,096	6,050	1,104	995	37,756	1,352	109,898
Noncurrent Assets:								
Restricted/designated cash and cash equivalents	—	3,537	—	137	—	—	—	3,674
Restricted investments	—	1,845	—	3,076	—	—	—	4,921
Deferred charges	—	123	—	—	—	—	—	123
Capital assets-nondepreciable	—	17,849	1,379	2,267	1,087	—	—	22,582
Capital assets-depreciable, net	—	6,129	7,652	699	6,477	—	1,761	22,718
Total noncurrent assets	—	29,483	9,031	6,179	7,564	—	1,761	54,018
Total Assets	53,545	38,579	15,081	7,283	8,559	37,756	3,113	163,916
LIABILITIES								
Current Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable	26	942	147	12	9	23	30	1,189
Accrued payroll	—	—	64	6	2	—	4	76
Claims payable	1,713	—	—	—	—	8,333	—	10,046
Obligations under securities lending	19,142	3,358	—	—	—	14,874	—	37,374
Interest payable	—	27	—	—	—	—	—	27
Due to other funds	4	—	2	—	—	—	—	6
Deferred revenue	3,318	3	948	3	—	1,490	146	5,908
Deposits payable	—	76	42	—	—	—	—	118
Bonds payable - current	—	245	—	—	—	—	—	245
Accrued vacation leave - current	4	12	12	8	5	—	5	46
Total current liabilities	24,207	4,663	1,215	29	16	24,720	185	55,035
Noncurrent Liabilities:								
Bonds payable, net	—	9,325	—	—	—	—	—	9,325
Accrued vacation leave	37	108	116	40	48	—	41	390
Total noncurrent liabilities	37	9,433	116	40	48	—	41	9,715
Total Liabilities	24,244	14,096	1,331	69	64	24,720	226	64,750
NET ASSETS								
Invested in capital assets, net of related debt	—	17,128	9,031	2,966	7,564	—	1,761	38,450
Restricted for:								
Capital outlay	—	1,053	—	3,215	—	—	—	4,268
Unrestricted	29,301	6,302	4,719	1,033	931	13,036	1,126	56,448
Total Net Assets	$ 29,301	$24,483	$ 13,750	$ 7,214	$ 8,495	$ 13,036	$ 2,887	$ 99,166

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

For the Fiscal Year Ended June 30, 2003 *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	$ —	$ —	$ 247	$ 743	$ 49	$ —	$ 132	$ 1,171
Sales and services used as security for bonds, net	—	3,936	—	—	—	—	—	3,936
Rental and lease earnings	—	1	3,163	—	548	—	902	4,614
Fees, licenses and fines	—	13	4,927	1,495	487	—	809	7,731
Insurance premiums	9,206	—	—	—	—	2,870	—	12,076
Miscellaneous	—	23	6	137	—	—	—	166
Total operating revenues	9,206	3,973	8,343	2,375	1,084	2,870	1,843	29,694
Operating Expenses:								
Personal services	462	1,316	3,212	945	606	—	733	7,274
Supplies and materials	3	175	415	57	44	—	189	883
Services	77	699	3,012	892	245	662	663	6,250
Cost of goods sold	—	—	—	358	—	—	63	421
Depreciation/amortization	—	635	603	105	242	—	63	1,648
Claims	2,691	—	—	—	—	5,393	—	8,084
Insurance and bonding	3,396	4	87	16	20	635	21	4,179
Other	15	148	928	166	23	—	91	1,371
Total operating expenses	6,644	2,977	8,257	2,539	1,180	6,690	1,823	30,110
Operating income (loss)	2,562	996	86	(164)	(96)	(3,820)	20	(416)
Nonoperating Revenues (Expenses):								
Noncapital gifts	—	—	126	—	1	—	85	212
Investment earnings (loss)	3,281	281	—	(113)	—	2,349	—	5,798
Interest and fees	—	(110)	—	—	—	—	—	(110)
Grants, aid and subsidies	—	—	—	—	—	—	(70)	(70)
Gain (loss) on sale of equipment	—	(1)	—	—	—	—	—	(1)
Miscellaneous	(232)	(48)	4	—	5	(186)	—	(457)
Total nonoperating revenues (expenses)	3,049	122	130	(113)	6	2,163	15	5,372
Income (loss) before contributions and transfers	5,611	1,118	216	(277)	(90)	(1,657)	35	4,956
Capital contributions	—	1,178	—	63	—	—	—	1,241
Transfers in	—	—	43	—	—	2,000	—	2,043
Transfers out	—	(274)	(2,873)	—	(279)	—	—	(3,426)
Change in net assets	5,611	2,022	(2,614)	(214)	(369)	343	35	4,814
Net assets — July 1, as restated	23,690	22,461	16,364	7,428	8,864	12,693	2,852	94,352
Net assets — June 30	$ 29,301	$ 24,483	$ 13,750	$ 7,214	$ 8,495	$ 13,036	$ 2,887	$ 99,166

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2003 *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	$ 9,152	$ 3,146	$ 8,723	$ 2,483	$ 1,074	$ 2,985	$ 1,854	$ 29,417
Receipts from other funds	—	554	—	—	—	—	—	554
Payments to suppliers	(3,466)	(619)	(4,318)	(1,724)	(327)	(1,362)	(1,046)	(12,862)
Payments to employees	(455)	(1,298)	(3,173)	(945)	(599)	—	(723)	(7,193)
Payments for benefits and claims	(2,169)	—	—	—	—	(3,991)	—	(6,160)
Payments to other funds	—	(266)	—	—	—	—	—	(266)
Other receipts (payments)	(5)	(96)	10	—	5	—	—	(86)
Net Cash Flows Provided (Used) by Operating Activities	3,057	1,421	1,242	(186)	153	(2,368)	85	3,404
Cash Provided From (Used For) Noncapital Financing Activities:								
Grants	—	—	—	—	—	—	(70)	(70)
Transfers from other funds	—	—	43	—	—	2,000	—	2,043
Transfers to other funds	—	(274)	(2,873)	—	(279)	—	—	(3,426)
Gifts	—	—	126	—	1	—	85	212
Total cash provided from (used for) noncapital financing activities	—	(274)	(2,704)	—	(278)	2,000	15	(1,241)
Cash Provided From (Used For) Capital Financing Activities:								
Acquisition and construction of capital assets	—	(3,198)	(8)	(125)	—	—	(90)	(3,421)
Proceeds from the sale of capital assets	—	21	—	—	—	—	—	21
Capital contributions	—	1,178	—	63	—	—	—	1,241
Principal paid on capital debt	—	(235)	—	—	—	—	—	(235)
Interest paid on capital debt	—	(431)	—	—	—	—	—	(431)
Payment to bond escrow agent	—	(47)	—	—	—	—	—	(47)
Total cash provided from (used for) capital financing activities	—	(2,712)	(8)	(62)	—	—	(90)	(2,872)
Cash Provided From (Used For) Investment Activities:								
Proceeds from the sale/maturities of non-State Treasurer investments	—	3,053	—	3,505	—	—	—	6,558
Purchase of non-State Treasurer investments	—	(76)	—	(4,108)	—	—	—	(4,184)
Investment earnings (loss)	408	252	—	(113)	—	400	—	947
Total cash provided from (used for) investment activities	408	3,229	—	(716)	—	400	—	3,321
Net increase (decrease) in cash and cash equivalents	3,465	1,664	(1,470)	(964)	(125)	32	10	2,612
Cash and cash equivalents at July 1	7,358	6,003	7,352	1,848	1,101	10,140	1,288	35,090
Cash and cash equivalents at June 30	$ 10,823	$ 7,667	$ 5,882	$ 884	$ 976	$ 10,172	$ 1,298	$ 37,702
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:								
Operating income (loss)	$ 2,562	$ 996	$ 86	$ (164)	$ (96)	$ (3,820)	$ 20	$ (416)
Adjustments to reconcile operating income to net cash flows from operating activities:								
Depreciation/amortization	—	635	603	105	242	—	63	1,648
Restatements and adjustments to cash	—	—	—	—	—	1,327	—	1,327
Nonoperating miscellaneous income/expense	—	—	4	—	5	—	—	9
(Increases) decreases in assets:								
Receivables	(627)	(248)	(55)	108	(11)	514	(7)	(326)
Inventories	—	5	6	(19)	—	—	(32)	(40)
Prepaid items		—	—	2	—	(25)	—	(23)
Increases (decreases) in liabilities:								
Accounts payable and accrued liabilities	542	16	126	(153)	6	(507)	13	43
Accrued vacation leave	7	18	31	(3)	7	—	9	69
Deferred revenue	573	1	399	1	—	143	19	1,136
Deposits payable	—	(2)	42	(63)	—	—	—	(23)
Total cash provided from (used for) operations	$ 3,057	$ 1,421	$ 1,242	$ (186)	$ 153	$ (2,368)	$ 85	$ 3,404
Noncash Investing, Capital, and Financing Activities:								
Noncash distributions from the State Treasurer Long-Term Investment Portfolio	$ 1,583	$ —	$ —	$ —	$ —	$ 1,026	$ —	$ 2,609
Change in construction in progress as a result of accrual of accounts payable	—	851	—	—	—	—	—	851
Assets acquired through the assumption of a liability	19,142	3,358	—	—	—	14,874	—	37,374
Change in fair value of investments	1,052	—	—	(54)	—	740	—	1,738

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

Department of Administration:
Motor Fleet Management
Courier Service
Temporary Solutions

Office of the Governor:
Centralized Computing Services
State Telecommunications Services

Department of Administration:
Surplus Property

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2003

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Courier Service	Temporary Solutions
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 1,321	$ 13,827	$ 9,084	$ —	$ 1,550
Investments	—	19,632	—	—	—
Securities lending collateral	—	21,694	—	—	—
Receivables:					
Accounts receivable, net	2,480	—	5,780	318	914
Interest receivable	—	54	—	—	—
Due from fiduciary funds	—	—	—	—	—
Due from other funds	—	—	5,578	3	27
Due from component units	—	—	415	—	—
Inventories	—	—	151	—	—
Prepaid items	—	—	—	—	—
Total current assets	3,801	55,207	21,008	321	2,491
Noncurrent Assets:					
Capital assets-nondepreciable	—	—	418	—	—
Capital assets-depreciable, net	—	—	64,397	—	4
Total noncurrent assets	—	—	64,815	—	4
Total Assets	3,801	55,207	85,823	321	2,495
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	—	—	1,835	11	—
Accrued payroll	—	—	—	20	489
Claims payable	—	1,196	—	—	—
Obligations under securities lending	—	21,694	—	—	—
Due to other funds	—	—	887	740	1
Deferred revenue	—	2,489	—	—	—
Accrued vacation leave - current	—	16	11	7	4
Total current liabilities	—	25,395	2,733	778	494
Noncurrent Liabilities:					
Accrued vacation leave	—	144	119	81	20
Total noncurrent liabilities	—	144	119	81	20
Total Liabilities	—	25,539	2,852	859	514
NET ASSETS					
Invested in capital assets, net of related debt	—	—	64,815	—	4
Unrestricted	3,801	29,668	18,156	(538)	1,977
Total Net Assets	$ 3,801	$ 29,668	$ 82,971	$ (538)	$ 1,981

Exhibit E-1

Centralized Computing Services	State Telecommu-nications Services	Surplus Property	*Totals*
$ 30,865	$ 4,978	$ 2,185	$ 63,810
—	—	—	19,632
—	—	—	21,694
795	7,549	44	17,880
—	—	—	54
1	2	—	3
6,779	5,537	714	18,638
210	336	—	961
108	—	—	259
7,037	2,163	—	9,200
45,795	20,565	2,943	152,131
2,861	—	19	3,298
16,320	5,830	121	86,672
19,181	5,830	140	89,970
64,976	26,395	3,083	242,101
218	216	978	3,258
44	18	2	573
—	—	—	1,196
—	—	—	21,694
33	51	425	2,137
—	—	—	2,489
100	54	7	199
395	339	1,412	31,546
1,454	629	80	2,527
1,454	629	80	2,527
1,849	968	1,492	34,073
19,181	5,830	140	89,970
43,946	19,597	1,451	118,058
$ 63,127	$ 25,427	$ 1,591	$ 208,028

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

For the Fiscal Year Ended June 30, 2003

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Courier Service	Temporary Solutions
Operating Revenues:					
Sales and services	$ 28,923	$ —	$ 37,101	$ 2,126	$ 6,604
Rental and lease earnings	—	—	—	—	—
Insurance premiums	—	15,536	—	—	—
Miscellaneous	—	—	50	2	—
Total operating revenues	28,923	15,536	37,151	2,128	6,604
Operating Expenses:					
Personal services	—	1,417	1,803	1,528	6,588
Supplies and materials	—	5	7,605	48	5
Services	28,848	129	2,183	616	60
Cost of goods sold	—	—	1,178	—	—
Depreciation/amortization	—	—	16,291	—	2
Claims	—	1,619	—	—	—
Insurance and bonding	—	18,858	2,298	—	—
Other	—	74	9	6	24
Total operating expenses	28,848	22,102	31,367	2,198	6,679
Operating income (loss)	75	(6,566)	5,784	(70)	(75)
Nonoperating Revenues (Expenses):					
Investment earnings	—	3,791	—	—	—
Insurance recoveries	—	—	154	—	—
Gain (loss) on sale of equipment	—	—	(799)	—	—
Miscellaneous	—	(352)	3	—	—
Total nonoperating revenues (expenses)	—	3,439	(642)	—	—
Income (loss) before contributions and transfers	75	(3,127)	5,142	(70)	(75)
Capital contributions	—	—	—	—	—
Transfers in	642	—	—	—	—
Transfers out	(54)	—	—	—	—
Change in net assets	663	(3,127)	5,142	(70)	(75)
Net assets — July 1, as restated	3,138	32,795	77,829	(468)	2,056
Net assets — June 30	$ 3,801	$ 29,668	$ 82,971	$ (538)	$ 1,981

Exhibit E-2

Centralized Computing Services	State Telecommu-nications Services	Surplus Property	*Totals*
$ 62,892	$ 69,457	$ 1,473	$ 208,576
910	—	—	910
—	—	—	15,536
—	254	60	366
63,802	69,711	1,533	225,388
16,744	9,642	1,301	39,023
392	85	72	8,212
6,797	49,279	660	88,572
292	—	123	1,593
8,420	2,346	48	27,107
—	—	—	1,619
89	40	19	21,304
36,109	6,362	32	42,616
68,843	67,754	2,255	230,046
(5,041)	1,957	(722)	(4,658)
—	—	—	3,791
—	—	—	154
(1)	(21)	—	(821)
1	—	—	(348)
—	(21)	—	2,776
(5,041)	1,936	(722)	(1,882)
936	—	—	936
35	1	—	678
(12)	(7)	—	(73)
(4,082)	1,930	(722)	(341)
67,209	23,497	2,313	208,369
$ 63,127	$ 25,427	$ 1,591	$ 208,028

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2003

(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	$ 5,648	$ 5,608	$ 4,535	$ 580	$ 6,353
Receipts from other funds	22,679	9,897	27,857	1,579	—
Payments to suppliers	(28,848)	(19,066)	(9,720)	(211)	(25)
Payments to employees	—	(1,369)	(1,770)	(1,500)	(6,472)
Payments for benefits and claims	—	(562)	—	—	—
Payments to other funds	—	(960)	(3,240)	(449)	(43)
Other receipts (payments)	—	—	45	(5)	(24)
Net cash flows provided (used) by operating activities	(521)	(6,452)	17,707	(6)	(211)
Cash Provided From (Used For) Noncapital Financing Activities:					
Transfers from other funds	642	—	—	—	—
Transfers to other funds	(54)	—	—	—	—
Total cash provided from (used for) noncapital financing activities	588	—	—	—	—
Cash Provided From (Used For) Capital Financing Activities:					
Acquisition and construction of capital assets	—	—	(25,748)	—	—
Proceeds from the sale of capital assets	—	—	2,398	—	—
Insurance recoveries	—	—	154	—	—
Total cash provided from (used for) capital financing activities	—	—	(23,196)	—	—
Cash Provided From (Used For) Investment Activities:					
Redemptions from State Treasurer investment pool	—	4,000	—	—	—
Investment earnings	—	845	—	—	—
Total cash provided from (used for) investment activities	—	4,845	—	—	—
Net increase (decrease) in cash and cash equivalents	67	(1,607)	(5,489)	(6)	(211)
Cash and cash equivalents at July 1	1,254	15,434	14,573	6	1,761
Cash and cash equivalents at June 30	$ 1,321	$ 13,827	$ 9,084	$ —	$ 1,550
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ 75	$ (6,566)	$ 5,784	$ (70)	$ (75)
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation/amortization	—	—	16,291	—	2
Nonoperating miscellaneous income/expense	—	—	2	—	—
(Increases) decreases in assets:					
Receivables	(1,860)	21	(2,973)	(54)	(384)
Due from other funds	1,264	—	(1,949)	—	134
Due from fiduciary funds	—	—	—	—	—
Due from component units	—	—	213	—	—
Inventories	—	—	5	—	—
Prepaid items	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	—	964	(95)	9	111
Due to other funds	—	(266)	395	85	(3)
Due to component units	—	(601)	—	—	—
Accrued vacation leave	—	47	34	24	4
Deferred revenue	—	(51)	—	—	—
Total cash provided from (used for) operations	$ (521)	$ (6,452)	$ 17,707	$ (6)	$ (211)
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio	$ —	$ 1,596	$ —	$ —	$ —
Donated or transferred assets (fair market value)	—	—	—	—	—
Assets acquired through the assumption of a liability	—	21,694	—	—	—
Change in fair value of investments	—	862	—	—	—

Exhibit E-3

Centralized Computing Services	State Telecommu-nications Services	Surplus Property	*Totals*
$ 8,065	$ 27,667	$ 499	$ 58,955
63,394	45,168	858	171,432
(40,606)	(56,816)	(136)	(155,428)
(16,330)	(9,370)	(1,282)	(38,093)
—	—	—	(562)
(5,116)	(1,339)	(469)	(11,616)
(233)	131	28	(58)
9,174	5,441	(502)	24,630
35	1	—	678
(12)	(7)	—	(73)
23	(6)	—	605
(4,203)	(2,220)	(40)	(32,211)
—	—	17	2,415
—	—	—	154
(4,203)	(2,220)	(23)	(29,642)
—	—	—	4,000
—	—	—	845
—	—	—	4,845
4,994	3,215	(525)	438
25,871	1,763	2,710	63,372
$ 30,865	$ 4,978	$ 2,185	$ 63,810
$ (5,041)	$ 1,957	$ (722)	$ (4,658)
8,420	2,346	48	27,107
1	—	—	3
8,067	3,463	(12)	6,268
(620)	(336)	(103)	(1,610)
—	5	—	5
211	246	—	670
13	—	1	19
(129)	(2,163)	—	(2,292)
(252)	(79)	862	1,520
(1,905)	(285)	(593)	(2,572)
—	—	—	(601)
409	287	17	822
—	—	—	(51)
$ 9,174	$ 5,441	$ (502)	$ 24,630
$ —	$ —	$ —	$ 1,596
936	—	—	936
—	—	—	21,694
—	—	—	862

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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 124).

Investment Trust Fund

This fund accounts for the external portion of the Investment Pool sponsored by the Department of State Treasurer. Financial statements are included in Exhibits B-6 and B-7 (see page 60-61).

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, 2003 *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	$ 351	$ 97,088	$ 323	$ 97,762
Investments:				
U.S. Government securities	—	2,913	—	2,913
State and municipal securities	—	590	—	590
Certificates of deposit	—	62,765	—	62,765
Securities lending collateral	286	—	263	549
Receivables:				
Interest receivable	1	—	1	2
Sureties	666,863	—	—	666,863
Total Assets	667,501	163,356	587	831,444
Liabilities:				
Obligations under securities lending	286	—	263	549
Total Liabilities	286	—	263	549
Net Assets:				
Held in trust for:				
Individuals, organizations and other governments	667,215	163,356	324	830,895
Total Net Assets	$ 667,215	$ 163,356	$ 324	$ 830,895

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

For the Fiscal Year Ended June 30, 2003 *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	$ 129,204	$ 127,308	$ 1	$ 256,513
Total contributions	129,204	127,308	1	256,513
Investment Income:				
Investment earnings	17	2,910	17	2,944
Less investment expenses	(4)	—	(3)	(7)
Net investment income	13	2,910	14	2,937
Total additions	129,217	130,218	15	259,450
Deductions:				
Payments in accordance with trust arrangements	20,194	130,094	—	150,288
Administrative expenses	6	—	—	6
Total deductions	20,200	130,094	—	150,294
Change in net assets	109,017	124	15	109,156
Net assets — July 1	558,198	163,232	309	721,739
Net assets — June 30	$ 667,215	$ 163,356	$ 324	$ 830,895

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2003

Exhibit F-3

(Dollars in Thousands)

	Balance, July 1, 2002	Additions	Deductions	Balance, June 30, 2003
Local Sales Tax Collections				
ASSETS				
Cash and cash equivalents	$ 438,792	$ 1,830,527	$ 1,768,887	$ 500,432
Receivables:				
Taxes receivable	126,912	—	20,412	106,500
Due from other funds	8,378	—	2,029	6,349
Total Assets	$ 574,082	$ 1,830,527	$ 1,791,328	$ 613,281
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables	$ 574,082	$ 1,830,527	$ 1,791,328	$ 613,281
Total Liabilities	$ 574,082	$ 1,830,527	$ 1,791,328	$ 613,281
Clerks of Court				
ASSETS				
Cash and cash equivalents	$ 88,416	$ 801,693	$ 799,650	$ 90,459
Receivables:				
Accounts receivable	810	4,722	4,760	772
Sureties	29,674	35,360	30,128	34,906
Total Assets	$ 118,900	$ 841,775	$ 834,538	$ 126,137
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables	$ 5,038	$ 105,196	$ 105,115	$ 5,119
Funds held for others	113,862	7,156	—	121,018
Total Liabilities	$ 118,900	$ 112,352	$ 105,115	$ 126,137
Intra-Entity Investment Fund Deposits				
ASSETS				
Cash and cash equivalents	$ 1,520,159	$ 668,957	$ —	$ 2,189,116
Investments:				
State Treasurer investment pool	461,255	—	398,285	62,970
Securities lending collateral	1,420,228	395,653	—	1,815,881
Receivables:				
Interest receivable	6,041	600	—	6,641
Total Assets	$ 3,407,683	$ 1,065,210	$ 398,285	$ 4,074,608
LIABILITIES				
Obligations under securities lending	1,420,228	395,653	—	1,815,881
Funds held for others	1,987,455	271,272	—	2,258,727
Total Liabilities	$ 3,407,683	$ 666,925	$ —	$ 4,074,608

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2003 *Exhibit F-3*

(Dollars in Thousands)

	Balance, July 1, 2002	Additions	Deductions	Balance, June 30, 2003
Other Agency Funds				
ASSETS				
Cash and cash equivalents	$ 27,056	$ 1,714,329	$ 1,714,141	$ 27,244
Investments:				
Certificates of deposit	462	—	—	462
Securities lending collateral	14,196	7,216	—	21,412
Receivables:				
Accounts receivable	17	4,636	4,569	84
Intergovernmental receivables	3,068	—	2,017	1,051
Interest receivable	2	—	—	2
Inventories	301	—	—	301
Total Assets	$ 45,102	$ 1,726,181	$ 1,720,727	$ 50,556
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable	$ 884	$ 11,066	$ 10,916	$ 1,034
Intergovernmental payables	4,087	121,649	120,490	5,246
Obligations under securities lending	14,196	7,216	—	21,412
Due to other funds	251	347	598	—
Deposits payable	1,742	3,535	3,539	1,738
Funds held for others	23,942	79,345	82,161	21,126
Total Liabilities	$ 45,102	$ 223,158	$ 217,704	$ 50,556
Total Agency Funds				
ASSETS				
Cash and cash equivalents	$ 2,074,423	$ 5,015,506	$ 4,282,678	$ 2,807,251
Investments:				
Certificates of deposit	462	—	—	462
State Treasurer investment pool	461,255	—	398,285	62,970
Securities lending collateral	1,434,424	402,869	—	1,837,293
Receivables:				
Taxes receivable	126,912	—	20,412	106,500
Accounts receivable	827	9,358	9,329	856
Intergovernmental receivables	3,068	—	2,017	1,051
Interest receivable	6,043	600	—	6,643
Due from other funds	8,378	—	2,029	6,349
Inventories	301	—	—	301
Sureties	29,674	35,360	30,128	34,906
Total Assets	$ 4,145,767	$ 5,463,693	$ 4,744,878	$ 4,864,582
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable	$ 884	$ 11,066	$ 10,916	$ 1,034
Intergovernmental payables	583,207	2,057,372	2,016,933	623,646
Obligations under securities lending	1,434,424	402,869	—	1,837,293
Due to other funds	251	347	598	—
Deposits payable	1,742	3,535	3,539	1,738
Funds held for others	2,125,259	357,773	82,161	2,400,871
Total Liabilities	$ 4,145,767	$ 2,832,962	$ 2,114,147	$ 4,864,582

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Component Units

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NONMAJOR COMPONENT UNITS – DISCRETELY PRESENTED

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on the State. The State has applied the criteria outlined in GASB Statement No. 14, The Financial Reporting Entity, in determining financial accountability. These component units are included in the financial reporting entity because of the significance of their operational or financial relationships with the State.

Nonmajor component units are comprised of the following entities:

N.C. State Ports Authority
N.C. Agricultural Finance Authority
N.C. Global TransPark Authority
N.C. Partnership for Children, Inc.
Regional Economic Development Commissions
North Carolina Railroad Company
N.C. Phase II Tobacco Certification Entity, Inc.

COMBINING STATEMENT OF NET ASSETS
NONMAJOR COMPONENT UNITS

June 30, 2003 *Exhibit G-1*

(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Partnership for Children, Inc.	Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Phase II Tobacco Certification Entity, Inc.	Total
ASSETS								
Cash and cash equivalents	$ 1,584	$ 3,848	$ 11,584	$ 1,150	$ 2,563	$ 17,872	$ 861	$ 39,462
Investments	6,370	—	11,633	6,282	929	—	—	25,214
Receivables, net	3,601	266	157	3,334	113	359	1	7,831
Inventories	1,133	3	—	—	—	—	—	1,136
Prepaid items	687	—	—	47	9	40	1	784
Notes receivable	—	11,464	—	—	—	—	—	11,464
Deferred charges	809	—	—	—	—	—	—	809
Capital assets-nondepreciable	37,112	172	15,779	—	67	13,004	—	66,134
Capital assets-depreciable, net	116,601	—	46,205	148	296	2,555	24	165,829
Total Assets	167,897	15,753	85,358	10,961	3,977	33,830	887	318,663
LIABILITIES								
Accounts payable and accrued liabilities	$ 1,702	$ 368	$ 324	$ 95	$ 87	$ 744	$ 15	$ 3,335
Interest payable	18	—	—	—	—	—	—	18
Due to primary government	—	—	4,089	3,399	—	—	—	7,488
Unearned revenue	818	39	26	—	84	—	—	967
Advance from primary government	—	—	24,242	—	—	10,009	—	34,251
Deposits payable	—	—	—	1,070	—	3	86	1,159
Long-term liabilities:								
Due within one year	1,395	4	51	—	125	—	—	1,575
Due in more than one year	19,215	38	1,345	195	—	—	—	20,793
Total Liabilities	23,148	449	30,077	4,759	296	10,756	101	69,586
NET ASSETS								
Invested in capital assets, net of related debt	134,035	172	47,288	148	363	15,559	24	197,589
Restricted for:								
Expendable:								
Health and human services	—	—	—	3,118	—	—	—	3,118
Other purposes	1,057	—	8	—	—	—	—	1,065
Unrestricted	9,657	15,132	7,985	2,936	3,318	7,515	762	47,305
Total Net Assets	$ 144,749	$ 15,304	$ 55,281	$ 6,202	$ 3,681	$ 23,074	$ 786	$ 249,077

COMBINING STATEMENT OF ACTIVTIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2003 *Exhibit G-2*

(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Partnership for Children, Inc.	Regional Economic Development Commissions	North Carolina Railroad Company	N.C. Phase II Tobacco Certification Entity, Inc.	Total
Total expenses	$ 31,987	$ 1,982	$ 7,087	$ 117,443	$ 4,718	$ 13,959	$ 3,667	$ 180,843
Program revenues:								
Charges for services	26,923	773	740	—	155	12,771	—	41,362
Operating grants and contributions	518	1,599	1,918	648	653	348	3,347	9,031
Capital grants and contributions	—	—	1,174	—	391	—	—	1,565
Net program (expense) revenue	(4,546)	390	(3,255)	(116,795)	(3,519)	(840)	(320)	(128,885)
Non-tax general revenues:								
State operating aid	—	—	1,600	115,346	3,486	—	—	120,432
State capital aid	—	—	—	—	—	34,608	—	34,608
Miscellaneous	218	—	269	—	—	—	—	487
Total non-tax general revenues	218	—	1,869	115,346	3,486	34,608	—	155,527
Change in net assets	(4,328)	390	(1,386)	(1,449)	(33)	33,768	(320)	26,642
Net assets, July 1, as restated	149,077	14,914	56,667	7,651	3,714	(10,694)	1,106	222,435
Net assets, June 30	$ 144,749	$ 15,304	$ 55,281	$ 6,202	$ 3,681	$ 23,074	$ 786	$ 249,077

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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)

		2003	2002	2001	2000	1999
Revenues — By Source						
Taxes	[2]	$ 15,394,024	$ 14,894,796	$ 15,147,177	$ 14,569,104	$ 13,817,577
Federal funds		8,672,065	8,459,344	7,924,893	7,253,282	6,297,196
Local funds		586,638	702,076	760,607	511,350	469,539
Investment earnings	[1] [4]	320,023	335,082	487,824	500,854	529,028
Interest earnings on loans		7,165	47,421	5,789	5,356	6,665
Sales and services		184,739	194,548	97,686	94,751	92,237
Sale, rental and lease of property		22,175	24,359	43,046	25,059	26,913
Fees, licenses and fines		915,380	864,912	896,435	1,046,042	895,892
Tobacco settlement		173,256	175,836	140,272	—	N/A
Contributions, gifts and grants		90,486	93,802	122,871	79,554	71,787
Funds escheated		41,369	90,181	N/A	N/A	N/A
Federal funds for fiscal relief		136,859	N/A	N/A	N/A	N/A
Miscellaneous		147,777	145,887	165,349	147,816	172,103
Total revenues	[5]	$ 26,691,956	$ 26,028,244	$ 25,791,949	$ 24,233,168	$ 22,378,937
Expenditures — By Function						
Current:						
General government	[1]	$ 691,267	$ 809,398	$ 1,035,440	$ 1,229,513	$ 1,039,855
Education	[1],[6]	N/A	N/A	6,964,812	6,674,757	6,253,838
Primary and secondary education	[6]	6,863,338	6,802,662	N/A	N/A	N/A
Higher education	[6]	2,813,629	2,519,624	N/A	N/A	N/A
Health and human services	[1] [3]	10,583,184	10,398,386	9,617,423	8,411,025	7,665,461
Economic development	[1]	484,298	498,644	453,931	428,819	370,124
Environment and natural resources	[1] [3]	534,405	574,871	459,170	371,238	354,025
Public safety, corrections, and regulation	[1]	1,998,576	2,070,166	1,948,423	1,999,894	1,670,703
Transportation	[1]	2,967,551	2,992,187	2,820,290	2,598,605	2,508,886
Agriculture	[1]	81,857	122,337	88,623	143,936	72,562
Retiree tax judgements		—	—	58,679	440,000	399,000
Capital outlay		104,379	126,011	155,228	159,241	182,793
Debt service		321,529	328,712	281,463	264,877	227,630
Total expenditures	[5]	$ 27,444,013	$ 27,242,998	$ 23,883,482	$ 22,721,905	$ 20,744,877

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 1994 - 2003

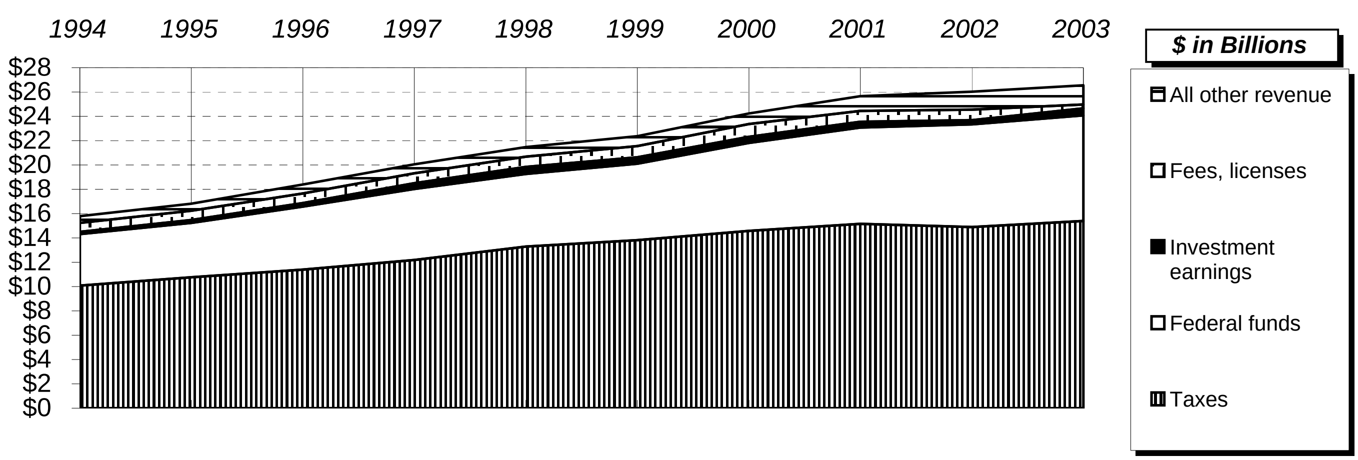


Table 1

1998	1997	1996	1995	1994
$ 13,287,609	$ 12,177,605	$ 11,390,198	$ 10,773,352	$ 10,084,671
5,983,003	5,857,680	5,192,921	4,458,959	4,243,091
462,879	427,306	469,023	325,613	299,297
575,901	454,678	290,536	245,388	183,574
5,676	4,280	1,361	121	38
84,087	76,130	82,511	46,686	74,210
26,321	24,738	23,641	13,888	9,396
826,491	814,690	793,622	749,277	713,941
N/A	N/A	N/A	N/A	N/A
61,189	31,805	21,512	38,012	28,135
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
148,794	182,247	141,647	169,276	141,421
$ 21,461,950	$ 20,051,159	$ 18,406,972	$ 16,820,572	$ 15,777,774
$ 1,115,763	$ 921,406	$ 769,518	$ 787,164	$ 735,973
5,416,486	4,775,741	4,499,257	4,441,966	4,144,633
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
7,300,262	6,822,624	6,244,976	5,211,388	4,519,194
321,613	294,787	261,340	273,101	261,623
332,803	668,402	576,272	591,007	538,574
1,578,985	1,613,757	1,331,964	1,209,576	1,099,081
2,384,455	2,205,494	1,908,076	1,871,233	1,724,551
68,573	65,421	63,174	62,257	59,552
400,000	—	—	—	—
203,605	147,194	173,118	167,249	127,275
170,039	131,249	150,471	141,031	123,376
$ 19,292,584	$ 17,646,075	$ 15,978,166	$ 14,755,972	$ 13,333,832

[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*.

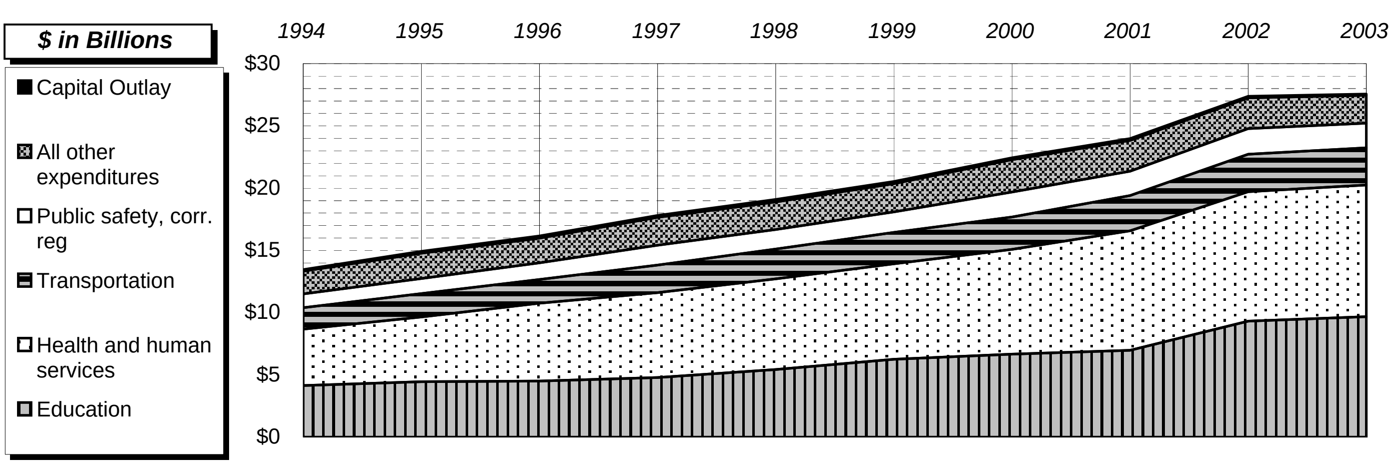
[3] In fiscal years prior to 1998, health expenditures were included in the environment, health and natural resources expenditure function. In the 1998 fiscal year, health expenditures were shifted and are now reflected in the health and human services function.

[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 NonexchangeTransactions*. 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 1994 - 2003



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

(Dollars in Thousands)

		2003	2002	2001	2000	1999
TAX REVENUES						
Individual income tax	[2]	$ 7,126,655	$ 7,219,794	$ 7,605,542	$ 7,097,514	$ 6,586,153
Corporate income tax	[2]	922,936	548,046	712,161	989,280	920,583
Sales and use tax	[2]	4,020,923	3,766,285	3,429,532	3,361,189	3,342,157
Franchise tax		583,781	592,259	746,687	557,544	567,497
Beverage tax		198,848	200,593	198,646	193,003	182,970
Insurance tax		408,873	340,785	305,791	273,367	291,202
Piped natural gas		63,219	64,852	64,854	52,025	—
Intangible tax		—	—	4	20	31
Inheritance tax		112,605	104,799	123,094	162,997	163,608
Soft drink tax		—	2	48	144	11,463
Tobacco products tax		41,899	41,500	42,137	43,104	44,694
License tax		44,565	44,432	43,874	42,595	27,202
Real estate conveyance tax		—	—	—	—	1,215
Gift tax		19,328	13,392	20,254	25,084	19,243
Other taxes		12,508	17,479	11,152	10,292	10,973
Total tax revenues		13,556,140	12,954,218	13,303,776	12,808,158	12,168,991
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		7,564,627	7,266,016	6,777,503	6,156,189	5,361,839
Federal Funds for Fiscal Relief:						
Federal funds for fiscal relief		136,859	—	—	—	—
Local Funds:						
Departmental revenues		562,498	682,310	737,063	482,387	436,609
Investment Earnings:						
Income from General Fund investments	[3]	103,786	129,924	163,479	204,083	248,657
Income from securities lending	[1]	30,604	44,659	111,490	112,011	112,531
Departmental revenues		4,745	4,217	10,022	7,300	4,416
Other investment earnings		5	9,531	320	251	81
		139,140	188,331	285,311	323,645	365,685
Sales and Services:						
Departmental revenues		61,316	61,031	68,736	69,793	70,036
Other non-tax revenues		198	228	405	276	350
		61,514	61,259	69,141	70,069	70,386
Rental and Lease of Property:						
Proceeds from rental and lease of property		92	546	573	1,035	786
Departmental revenues		6,140	6,556	16,989	7,218	5,773
		6,232	7,102	17,562	8,253	6,559
Fees, Licenses and Fines:						
Court fines and fees		126,381	109,575	111,012	97,808	99,986
Secretary of State service fees		36,807	31,357	29,584	24,255	20,099
Banking and investment fees		4,485	4,336	10,914	4,029	4,332
Self insurer fees (Industrial Commission)		13,512	6,795	7,098	6,360	4,128
Probation supervision fees		14,339	10,833	10,453	10,605	11,166
Department of Insurance fees		21,198	22,854	20,210	18,433	18,205
DWI service and restoration fees		7,332	5,822	5,706	5,703	5,936
Departmental revenues		41,747	41,540	40,422	38,300	110,664
Other non-tax revenues		4,161	4,124	4,065	4,181	2,652
		269,962	237,236	239,464	209,674	277,168
Tobacco settlement						
Tobacco settlement		173,256	175,836	140,272	—	—
Contributions, Gifts and Grants:						
Departmental revenues		29,702	33,658	53,425	15,452	17,511
Other non-tax revenues		1	30	—	2	101
		29,703	33,688	53,425	15,454	17,612
Miscellaneous:						
Local sales and use tax administration		12,495	11,774	11,568	10,973	10,293
Sales tax refunds		7,908	11,120	11,494	15,514	10,406
Departmental revenues		95,753	89,489	123,230	108,555	130,518
Other non-tax revenue		315	6,307	914	866	844
		116,471	118,690	147,206	135,908	152,061
Total non-tax revenues		9,060,262	8,770,468	8,466,947	7,401,579	6,687,919
Total Revenues	[4]	$ 22,616,402	$ 21,724,686	$ 21,770,723	$ 20,209,737	$ 18,856,910

Table 2

1998	1997	1996	1995	1994
$ 6,124,709	$ 5,454,571	$ 4,975,387	$ 4,617,197	$ 4,289,162
999,759	869,717	878,028	833,135	737,125
3,272,774	3,134,877	2,947,537	2,701,114	2,585,642
567,869	534,622	495,008	457,952	438,779
155,352	151,064	138,653	170,033	161,578
283,828	259,286	242,188	235,455	219,847
—	—	—	—	—
217	—	11,509	128,608	127,088
144,203	132,195	113,416	109,883	106,530
22,338	30,980	39,619	36,176	38,124
47,304	46,797	46,394	44,936	39,700
38,209	41,280	44,962	53,431	50,975
894	1,064	19,510	16,349	18,046
20,722	12,566	11,043	8,592	13,150
1,501	1,516	1,388	1,421	955
11,679,679	10,670,535	9,964,642	9,414,282	8,826,701
5,174,406	5,169,286	4,613,915	3,780,032	3,595,033
—	—	—	—	—
436,347	403,145	445,443	299,156	270,873
252,162	224,260	202,277	163,783	121,776
136,955	105,722	—	—	—
58,415	10,257	11,070	7,923	7,214
137	241	249	317	166
447,669	340,480	213,596	172,023	129,156
67,214	58,744	63,345	24,414	44,503
319	—	—	—	—
67,533	58,744	63,345	24,414	44,503
1,811	1,342	1,265	499	7
4,255	4,651	4,404	7,288	6,880
6,066	5,993	5,669	7,787	6,887
93,252	99,819	90,456	88,023	81,529
19,257	17,344	14,838	12,911	11,209
3,031	3,337	3,432	3,760	3,513
3,556	3,460	3,038	2,768	2,785
11,778	10,859	10,002	9,690	8,604
1,096	6,001	961	936	14,834
6,050	5,949	5,426	5,342	4,818
103,296	104,002	101,364	106,360	99,502
3,358	4,075	5,292	5,432	8,768
244,674	254,846	234,809	235,222	235,562
—	—	—	—	—
13,205	14,145	8,574	4,065	3,319
1	—	—	—	—
13,206	14,145	8,574	4,065	3,319
10,060	9,178	8,661	6,669	5,623
10,936	13,301	11,585	14,217	12,166
115,529	151,906	112,430	129,224	104,072
744	455	471	1,534	598
137,269	174,840	133,147	151,644	122,459
6,527,170	6,421,479	5,718,498	4,674,343	4,407,792
$ 18,206,849	$ 17,092,014	$ 15,683,140	$ 14,088,625	$ 13,234,493

[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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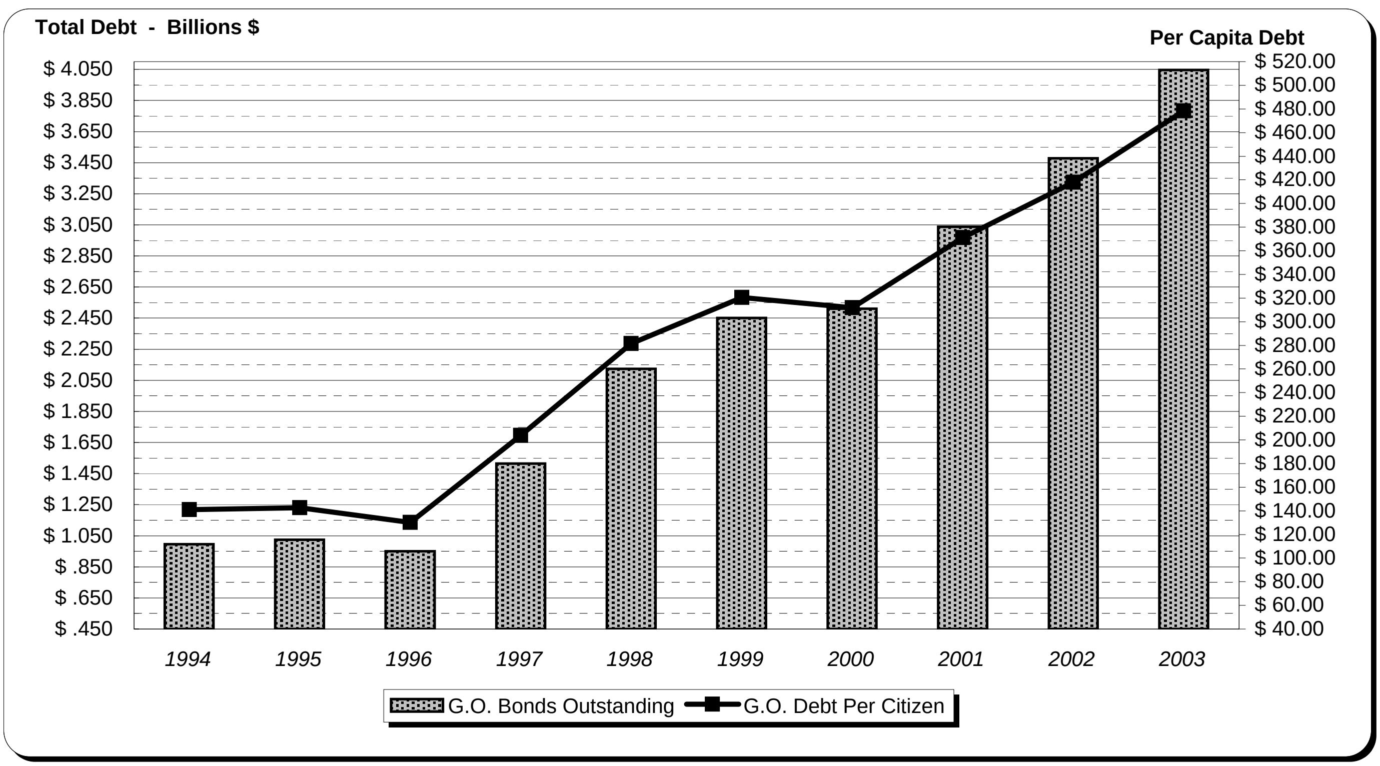
GENERAL OBLIGATION BONDS DEBT RATIOS

For the Fiscal Years 1994-2003 *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
2003	8,456,596 [1]	$ 4,045,603,000	$ 478.40	$ 321,529,000	$ 27,444,013,000	1.17%
2002	8,320,146	$ 3,477,953,000	$ 418.02	$ 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%

Total General Obligation Debt and Long-Term Debt Per Capita



[1] Since the 2003 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2003 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 1994-2003

(Dollars in Thousands)

Fiscal Year Ended June 30	Gross Revenues [1]	Direct Operating Expenses [1]	Net Revenue Available for Debt Service	Debt Service Requirements Principal	Debt Service Requirements Interest	Debt Service Requirements Total	Coverage [2]
PRIMARY GOVERNMENT:							
			General Long-Term Obligations Debt				
2003	$ —	$ —	$ —	$ —	$ —	$ —	—
2002	—	—	—	—	—	—	—
2001	—	—	—	—	—	—	—
2000	—	—	—	—	—	—	—
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—
1994	—	—	—	—	—	—	—
			Enterprise Funds				
2003	$ 4,192	$ 2,341	$ 1,851	$ 235	$ 434	$ 669	2.77
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

[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: Principal	Interest	Total	Coverage [2]
COMPONENT UNITS:							
Proprietary Funds							
2003	$ 361,644	$ 19,520	$342,124	$22,465	$ 97,759	$120,224	2.85
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
University Funds							
2003	########	$1,485,390	$280,965	$49,130	$ 53,622	$102,752	2.73
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

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2003

(Dollars in Thousands)

		Payable from General Fund Revenues						
	Total General Obligation Bonds	*Total General Fund*	Capital Improvement Series 1989 5-1-89	Prison and Youth Services Facilities Series B 10-1-93	Prison and Youth Services Facilities Refunding Series C 10-15-93	Capital Improvement Series 1994A 2-1-94	Clean Water Series 1994A 10-1-94	Clean Water Series 1995A 6-1-95
			6.5 - 6.9% [*]	2.5 - 4.5%	4.2 - 4.8%	4.6 - 4.75%	5.7 - 5.8%	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.....	649,730	649,730	—	—	67,475	—	—	—
Ch. 590, 1995 session law..	250,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law..	631,700	631,700	—	—	—	—	—	—
Ch. 3, 2000 session law......	1,114,900	1,114,900	—	—	—	—	—	—
Total bonds authorized and issued......................	5,249,329	4,999,329	20,499	87,500	67,475	400,000	40,000	60,000
Accretion............................	14,239	14,239	14,239	—	—	—	—	—
Bonds retired......................	672,540	589,165	25,630	47,800	14,805	127,500	14,000	18,000
Partial defeasances............	526,400	526,400	—	—	—	—	24,000	24,000
Bonds outstanding— June 30, 2003.............	$ 4,064,628	$ 3,898,003	$ 9,108	$ 39,700	$ 52,670	$ 272,500	$ 2,000	$ 18,000
Bond Maturity As Follows:								
2003-04..........................	234,891	218,216	1,786	8,800	9,390	28,000	2,000	3,000
2004-05..........................	238,684	222,009	1,669	8,800	9,285	28,000	—	3,000
2005-06..........................	238,621	221,946	1,561	8,800	9,175	28,000	—	3,000
2006-07..........................	238,571	221,896	1,456	8,800	9,060	28,000	—	3,000
2007-08..........................	238,766	222,091	1,361	4,500	8,940	28,000	—	3,000
2008-09..........................	237,880	221,205	1,275	—	6,820	28,000	—	3,000
2009-10..........................	237,510	220,835	—	—	—	28,000	—	—
2010-11..........................	237,845	221,170	—	—	—	28,000	—	—
2011-12..........................	238,505	221,830	—	—	—	28,000	—	—
2012-13..........................	239,440	222,890	—	—	—	20,500	—	—
2013-14..........................	222,315	222,315	—	—	—	—	—	—
2014-15..........................	221,715	221,715	—	—	—	—	—	—
2015-16..........................	221,585	221,585	—	—	—	—	—	—
2016-17..........................	219,115	219,115	—	—	—	—	—	—
2017-18..........................	222,265	222,265	—	—	—	—	—	—
2018-19..........................	221,465	221,465	—	—	—	—	—	—
2019-20..........................	121,500	121,500	—	—	—	—	—	—
2020-21..........................	65,500	65,500	—	—	—	—	—	—
2021-22..........................	46,500	46,500	—	—	—	—	—	—
2022-23..........................	39,455	39,455	—	—	—	—	—	—
2023-24..........................	16,500	16,500	—	—	—	—	—	—
2024-25..........................	16,500	16,500	—	—	—	—	—	—
2025-26..........................	16,500	16,500	—	—	—	—	—	—
2026-27..........................	16,500	16,500	—	—	—	—	—	—
2027-28..........................	16,500	16,500	—	—	—	—	—	—
Total Bonds Outstanding....	$ 4,064,628	$ 3,898,003	$ 9,108	$ 39,700	$ 52,670	$ 272,500	$ 2,000	$ 18,000

[*] 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	—	—	—	—
— 0	—	—	—	—	—	—	—	—
— 0	—	—	—	—	177,400	20,000	2,600	5,000
— 0	—	—	—	—	—	—	—	—
195,000	450,000	450,000	450,000	25,905	177,400	20,000	2,600	300,000
—	—	—	—	—	—	—	—	—
45,000	45,500	64,000	74,000	1,150	18,000	8,550	1,125	24,000
54,000	137,500	43,500	—	—	59,400	—	—	72,000
$ 96,000	$ 267,000	$ 342,500	$ 376,000	$ 24,755	$ 100,000	$ 11,450	$ 1,475	$ 204,000
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
—	32,000	29,500	18,500	2,000	9,500	—	—	12,000
—	—	37,000	18,500	1,980	9,500	—	—	12,000
—	—	57,500	18,500	1,965	9,500	—	—	12,000
—	—	57,500	18,500	1,950	9,500	—	—	12,000
—	—	—	71,500	1,930	—	—	—	12,000
—	—	—	74,000	—	—	—	—	48,000
—	—	—	8,500	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 96,000	$ 267,000	$ 342,500	$ 376,000	$ 24,755	$ 100,000	$ 11,450	$ 1,475	$ 204,000

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

June 30, 2003

(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	204,400	35,000	10,600	—	—	—
Ch. 3, 2000 session law......	250,000	—	—	—	33,750	88,750	88,750
Total bonds authorized and issued......................	380,000	204,400	35,000	10,600	88,750	88,750	88,750
Accretion............................	—	—	—	—	—	—	—
Bonds retired......................	32,000	5,350	17,500	2,150	—	—	—
Partial defeasances............	112,000	—	—	—	—	—	—
Bonds outstanding— June 30, 2003............	$ 236,000	$ 199,050	$ 17,500	$ 8,450	$ 88,750	$ 88,750	$ 88,750
Bond Maturity As Follows:							
2003-04..........................	16,000	5,350	17,500	2,150	—	—	—
2004-05..........................	16,000	22,850	—	2,150	—	—	—
2005-06..........................	16,000	22,850	—	2,150	—	—	—
2006-07..........................	16,000	23,000	—	2,000	—	—	—
2007-08..........................	16,000	25,000	—	—	—	—	—
2008-09..........................	16,000	25,000	—	—	—	—	—
2009-10..........................	16,000	25,000	—	—	—	—	—
2010-11..........................	16,000	25,000	—	—	—	—	—
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..........................	—	—	—	—	10,750	10,750	10,750
2018-19..........................	—	—	—	—	23,250	23,250	23,250
2019-20..........................	—	—	—	—	18,750	18,750	18,750
2020-21..........................	—	—	—	—	4,750	4,750	4,750
2021-22..........................	—	—	—	—	—	—	—
2022-23..........................	—	—	—	—	—	—	—
2023-24..........................	—	—	—	—	—	—	—
2024-25..........................	—	—	—	—	—	—	—
2025-26..........................	—	—	—	—	—	—	—
2026-27..........................	—	—	—	—	—	—	—
2027-28..........................	—	—	—	—	—	—	—
Total Bonds Outstanding....	$ 236,000	$ 199,050	$ 17,500	$ 8,450	$ 88,750	$ 88,750	$ 88,750

Table 5

Payable from General Fund Revenues

Public Improvement Series 2002G 5-1-02 Variable to 18%	Natural Gas Series 2002A 12-1-02 2.6 - 3.9%	Clean Water Series 2002A 12-1-02 2.25 - 5.0%	Refunding Series 2002A 12-1-02 2% - 5.25%	Refunding Series 2002B 12-12-02 Variable to 20%	Refunding Series 2002C 12-12-02 Variable to 20%	Refunding Series 2002D 12-12-02 Variable to 20%	Refunding Series 2002E 12-12-02 Variable to 20%	Refunding Series 2002F 12-12-02 Variable to 20%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	56,480	100,000	100,000	100,000	100,000	99,870
—	—	—	—	—	—	—	—	—
—	50,000	18,800	—	—	—	—	—	—
88,750	—	—	—	—	—	—	—	—
88,750	50,000	18,800	56,480	100,000	100,000	100,000	100,000	99,870
—	—	—	—	—	—	—	—	—
—	—	105	3,000	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 88,750	$ 50,000	$ 18,695	$ 53,480	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 99,870
—	10,000	125	2,300	—	—	—	—	—
—	10,000	190	5,740	—	—	—	—	—
—	10,000	200	5,915	—	—	—	—	—
—	10,000	210	6,075	—	—	—	—	—
—	10,000	225	6,250	—	—	—	—	—
—	—	235	6,795	—	—	—	—	—
—	—	255	10,030	—	—	—	—	—
—	—	270	10,375	—	—	—	—	—
—	—	750	—	4,520	4,520	4,520	4,520	4,500
6,250	—	1,815	—	10,920	10,920	10,920	10,920	10,915
6,250	—	1,795	—	10,815	10,815	10,815	10,815	10,795
6,250	—	1,775	—	10,700	10,700	10,700	10,700	10,690
6,250	—	2,245	—	13,385	13,385	13,385	13,385	13,370
6,250	—	510	—	3,520	3,520	3,520	3,520	3,525
10,750	—	4,915	—	27,975	27,975	27,975	27,975	27,950
23,250	—	3,180	—	18,165	18,165	18,165	18,165	18,125
18,750	—	—	—	—	—	—	—	—
4,750	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 88,750	$ 50,000	$ 18,695	$ 53,480	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 99,870

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

June 30, 2003 *Table 5*

(Dollars in Thousands)

	Payable from General Fund Revenues					*Payable from Highway Trust Fund Revenues*
	Clean Water Series 2003A 1-1-03	Public Improvement Series 2003A 3-1-03	Public Improvement Series 2003B 4-1-03	Natural Gas Series 2003 4-1-03	Clean Water Series 2003B 5-1-03	Highway Series 1997A 11-1-97
	2.25% - 3.125%	2.0% - 5.25%	2.0-5.0%	1.5% - 3.5%	2.5% - 3.125%	4.5-5.0%
Bonds Authorized and Issued:						
Ch. 1048, 1987 session law..	$ —	$ —	$ —	$ —	$ —	$ —
Ch. 935, 1989 session law....	—	—	—	—	—	—
Ch. 542, 1993 session law....	—	—	—	—	—	—
Ch. 631, 1995 session law....	—	—	—	—	—	—
General Statute Ch. 142.......	—	—	—	—	—	—
Ch. 590, 1995 session law....	—	—	—	—	—	250,000
Ch. 132, 1998 session law....	2,900	38,355	—	33,000	3,645	—
Ch. 3, 2000 session law........	—	281,645	283,255	—	—	—
Total bonds authorized and issued........................	2,900	320,000	283,255	33,000	3,645	250,000
Accretion.............................	—	—	—	—	—	—
Bonds retired........................	—	—	—	—	—	83,375
Partial defeasances.............	—	—	—	—	—	—
Bonds outstanding— June 30, 2003..............	$ 2,900	$ 320,000	$ 283,255	$ 33,000	$ 3,645	$ 166,625
Bond Maturity As Follows:						
2003-04...........................	600	5,000	4,460	6,600	750	16,675
2004-05...........................	600	5,000	4,460	6,600	750	16,675
2005-06...........................	600	5,000	4,460	6,600	750	16,675
2006-07...........................	600	5,000	4,460	6,600	750	16,675
2007-08...........................	500	5,000	4,460	6,600	645	16,675
2008-09...........................	—	13,000	13,000	—	—	16,675
2009-10...........................	—	13,000	13,000	—	—	16,675
2010-11...........................	—	13,000	13,000	—	—	16,675
2011-12...........................	—	13,000	13,000	—	—	16,675
2012-13...........................	—	13,000	13,000	—	—	16,550
2013-14...........................	—	13,000	13,000	—	—	—
2014-15...........................	—	13,000	13,000	—	—	—
2015-16...........................	—	13,000	13,000	—	—	—
2016-17...........................	—	13,000	13,000	—	—	—
2017-18...........................	—	13,000	13,000	—	—	—
2018-19...........................	—	16,500	18,000	—	—	—
2019-20...........................	—	16,500	30,000	—	—	—
2020-21...........................	—	16,500	30,000	—	—	—
2021-22...........................	—	16,500	30,000	—	—	—
2022-23...........................	—	16,500	22,955	—	—	—
2023-24...........................	—	16,500	—	—	—	—
2024-25...........................	—	16,500	—	—	—	—
2025-26...........................	—	16,500	—	—	—	—
2026-27...........................	—	16,500	—	—	—	—
2027-28...........................	—	16,500	—	—	—	—
Total Bonds Outstanding......	$ 2,900	$ 320,000	$ 283,255	$ 33,000	$ 3,645	$ 166,625

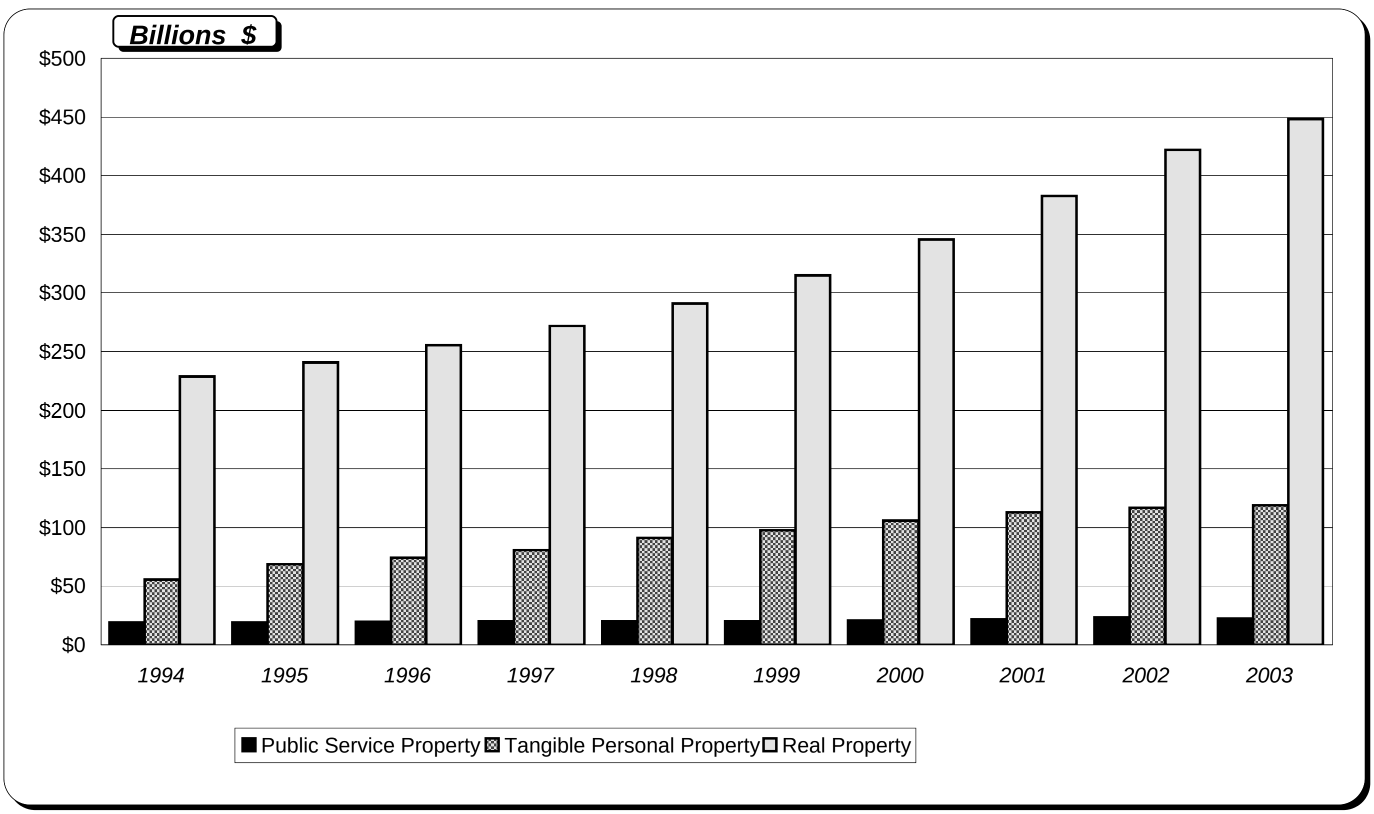
STATEWIDE ASSESSED PROPERTY VALUES
REAL PROPERTY, TANGIBLE PERSONAL PROPERTY AND PUBLIC SERVICE COMPANIES

For the Fiscal Years 1994-2003

Table 6

	Assessed Value at January 1			
For the Years	Real Property	Personal Property	Public Service Companies	Total
2003	448,370,864,967	118,788,285,500	22,602,081,344	589,761,231,811
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

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 1994-2003 *Table 7*

(Dollars in Thousands)

Commercial, Savings Banks&Thrifts

As of June 30	Chartered State	Chartered National	Total Deposits
2003	80,487,515	653,561,925	734,049,440

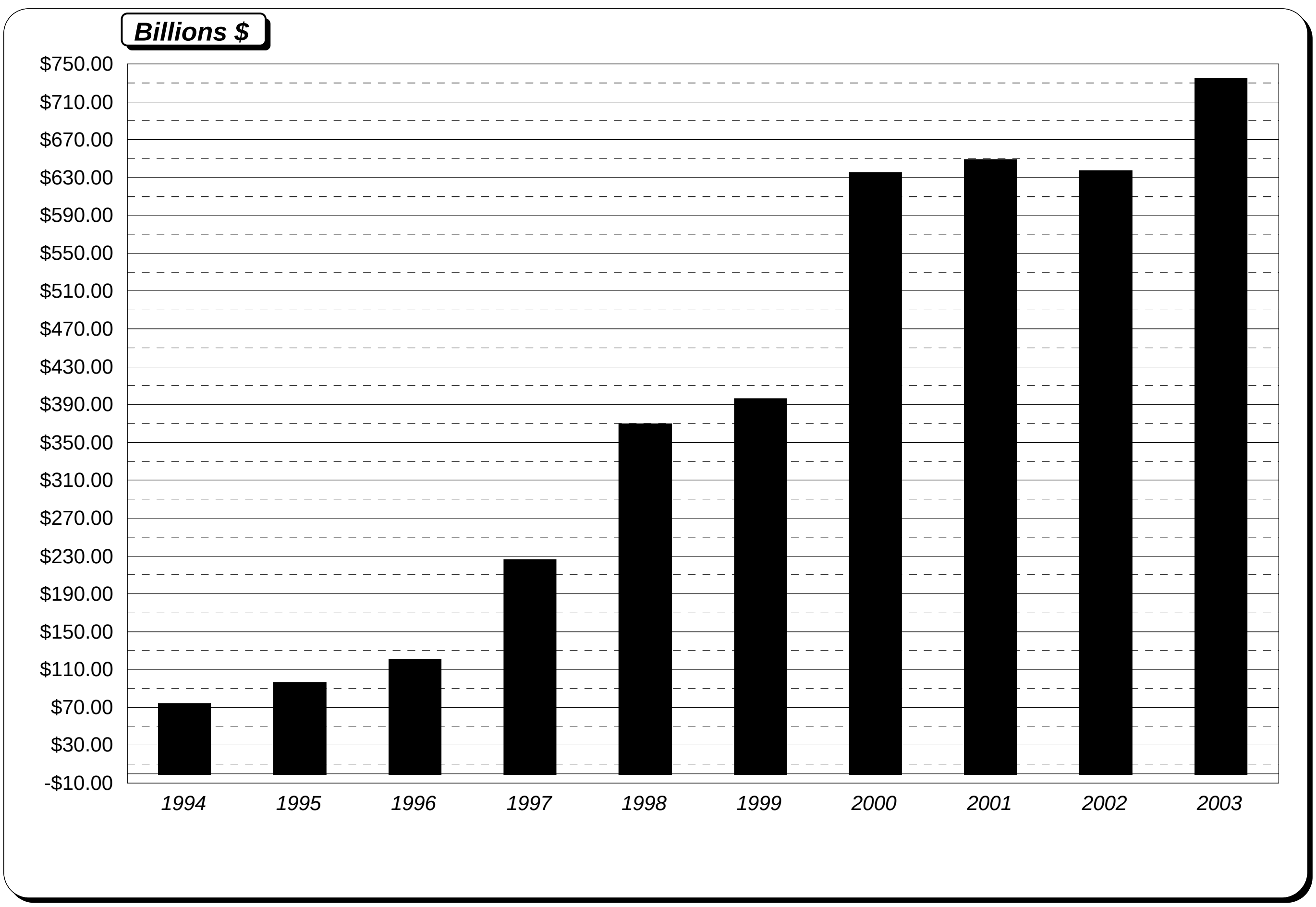
Banks

As of June 30	Chartered State	Chartered National		Total Deposits
2002	70,914,385	565,715,954	[1], [2]	636,630,339
2001	68,181,993	575,167,149	[1]	643,349,142
2000	54,700,398	574,253,124	[1]	628,953,522
1999	47,171,364	342,200,834	[1]	389,372,198
1998	42,834,645	319,721,396	[1]	362,556,041
1997	40,258,721	178,556,322	[1]	218,815,043
1996	37,637,624	75,499,983		113,137,607
1995	34,336,993	52,883,449		87,220,442
1994	26,087,820	47,009,485		73,097,305

Savings and Loan Associations

As of Dec. 31	Chartered State	Chartered Federal	Total Deposits
2000	2,563,408	2,113,000	4,676,408
1999	2,951,811	2,294,505	5,246,316
1998	3,283,086	2,408,829	5,691,915
1997	3,440,310	2,663,747	6,104,057
1996	3,459,159	2,636,338	6,095,497
1995	3,949,870	2,898,852	6,848,722
1994	4,910,234	2,827,642	7,737,876

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 Car 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.

Source: North Carolina Department of Commerce - State Chartered

CASH RECEIPTS FROM FARMING BY COMMODITIES

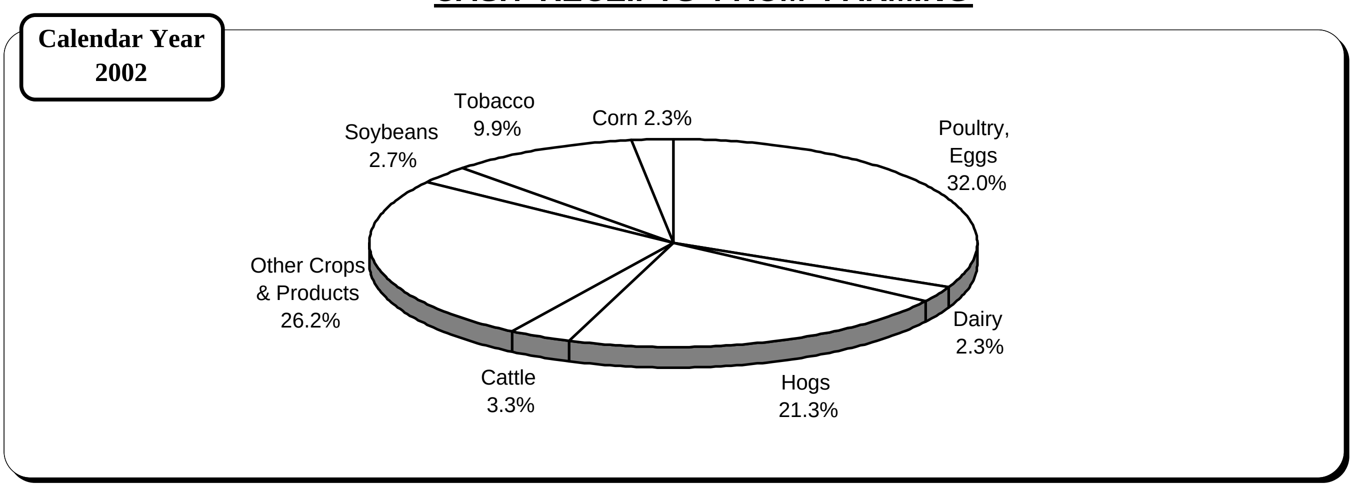
For the Calendar Years 1993-2002 *Table 8*

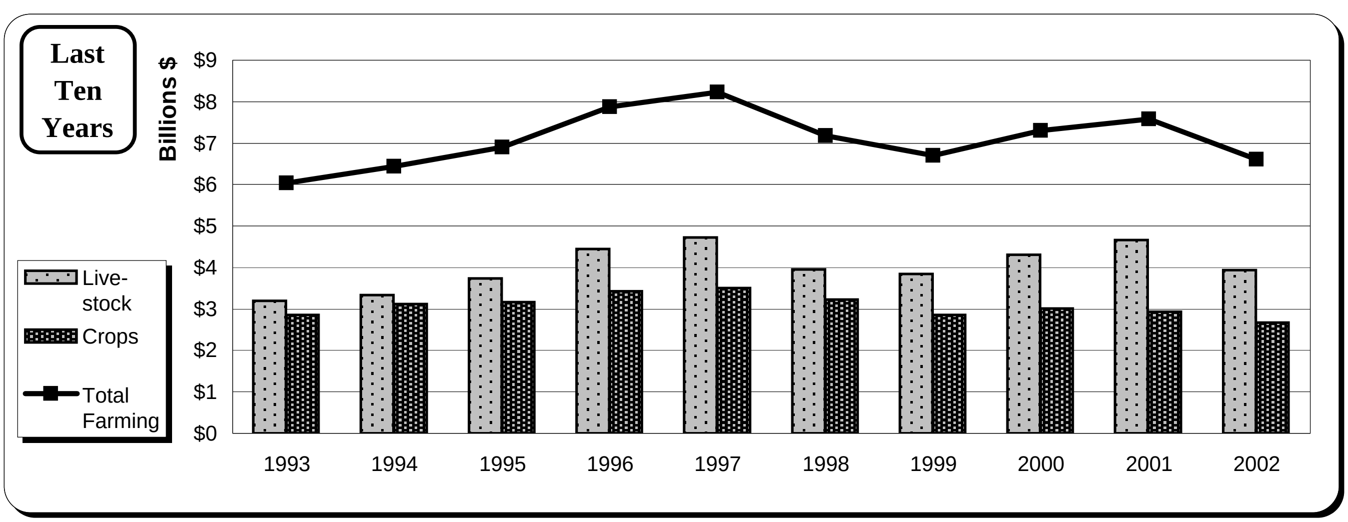
(Dollars in Millions)

	Livestock and Related Products						Crops					Total
Year	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	All Livestock and Crops
2002	2,113.2	154.7	1,407.1	216.0	53.0	3,944.0	656.5	175.7	155.0	1,678.9	2,666.1	6,610.1
2001	2,458.2	194.4	1,721.5	227.7	52.6	4,654.4	685.8	183.2	151.6	1,909.9	2,930.5	7,584.9 [1]
2000	2,171.3	174.5	1,671.6	231.7	50.8	4,299.9	854.1	169.4	116.8	1,869.4	3,009.7	7,309.6 [1]
1999	2,212.3	207.1	1,160.3	208.7	50.8	3,839.2	784.3	174.7	101.5	1,795.4	2,855.9	6,695.1 [1]
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

[1] Numbers restated by Agricultural Departmen

CASH RECEIPTS FROM FARMING





Source: North Carolina Crop and Livestock Reporting Service (Data for 2003 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 2003 preliminary employment averages, are listed:

2003 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	First Union National Bank	Banking and financial services
5	IBM Corporation	Computers, telecommunications
6	Harris Teeter, Inc.	Supermarket chain
7	Lowes Home Centers, Inc.	Hardware chain
8	US Airways, Inc	Airline
9	Sara Lee Corporation	Hosiery, baked goods, apparel
10	United Parcel Service, Inc	Delivery services
11	Branch Banking & Trust Co	Banking and financial services
12	Bank of America, NA	Banking and financial services
13	Belk, Inc.	Department store chain
14	K-Mart Corporation	Discount store chain
15	North Carolina Baptist Hospitals	Medical services
16	Duke Energy Corporation	Utility - electrical
17	Lowes Food Stores, Inc	Supermarket chain
18	GlaxoSmithKline	Pharmaceuticals
19	R J Reynolds Tobacco Corporation	Tobacco
20	Moses H Cone Memorial Hospital	Medical services
21	Sears Roebuck and Company	Department store chain
22	Broyhill Furniture Industries, Inc.	Furniture manufacturing
23	Smithfield Packing Co.	Meat packing
24	Memorial Mission Hospital, Inc	Medical services
25	Bell South Telecommunications, Inc	Telecommunications

Source: North Carolina Employment Security Commission

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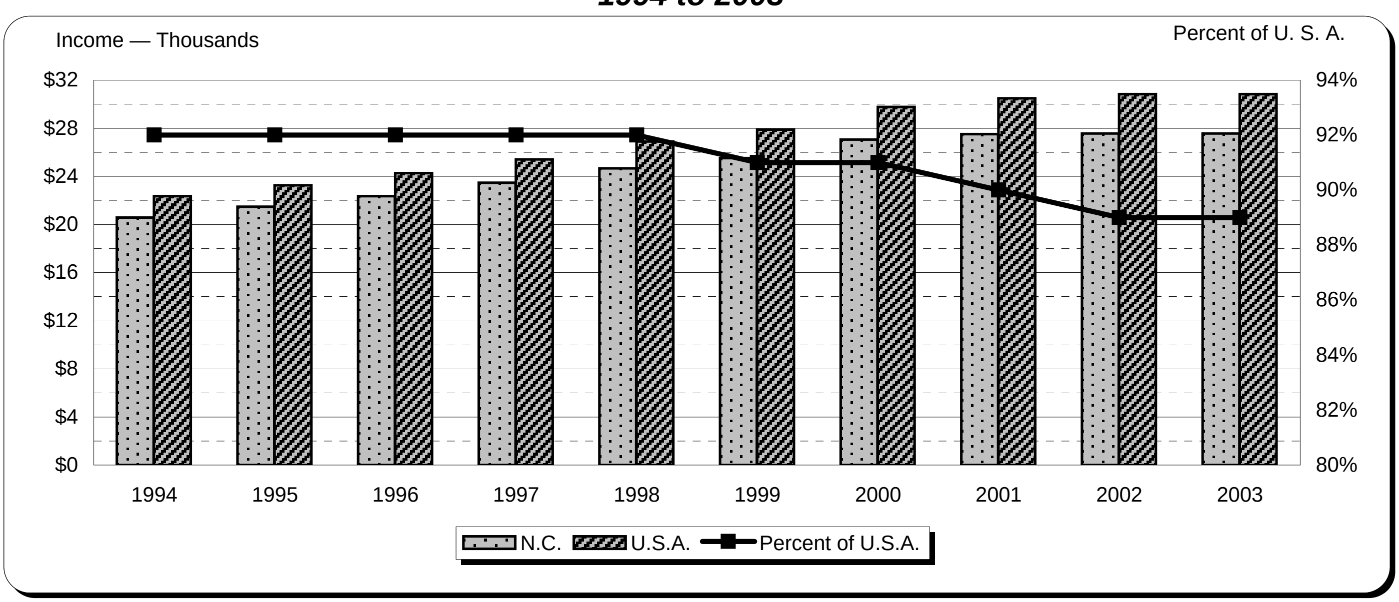
SCHEDULE OF DEMOGRAPHIC DATA

For the Years 1950, 1960, 1970, 1980, 1990, 1994-2003

	Population [1]						*Per Capita Income* [2]				
Year	United States Population		U.S. Increase from Prior Period	North Carolina Population		N.C. Increase from Prior Period	United States		North Carolina		N.C. as a Percentage of U.S.
2003	291,973,307	[F]	1.25%	8,456,596	[F]	1.64%	30,832	[G]	$ 27,566	[G]	89.41%
2002	288,368,698	[D]	1.25%	8,320,146	[D]	1.64%	30,832	[E]	$ 27,566	[E]	89.41%
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%
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 2003 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2003 amounts.
[G] - 2003 numbers reflect 2002 estimates

Per Capita Income
North Carolina Compared to United States
1994 to 2003



Sources: *[1] Population* — *U.S. Department of Commerce, Bureau of the Census; N.C. Office of State Planning*

[2] Per Capita Income — *U.S. Department of Commerce, Bureau of Economic Analysis; N.C. Office of State Budget and Management*

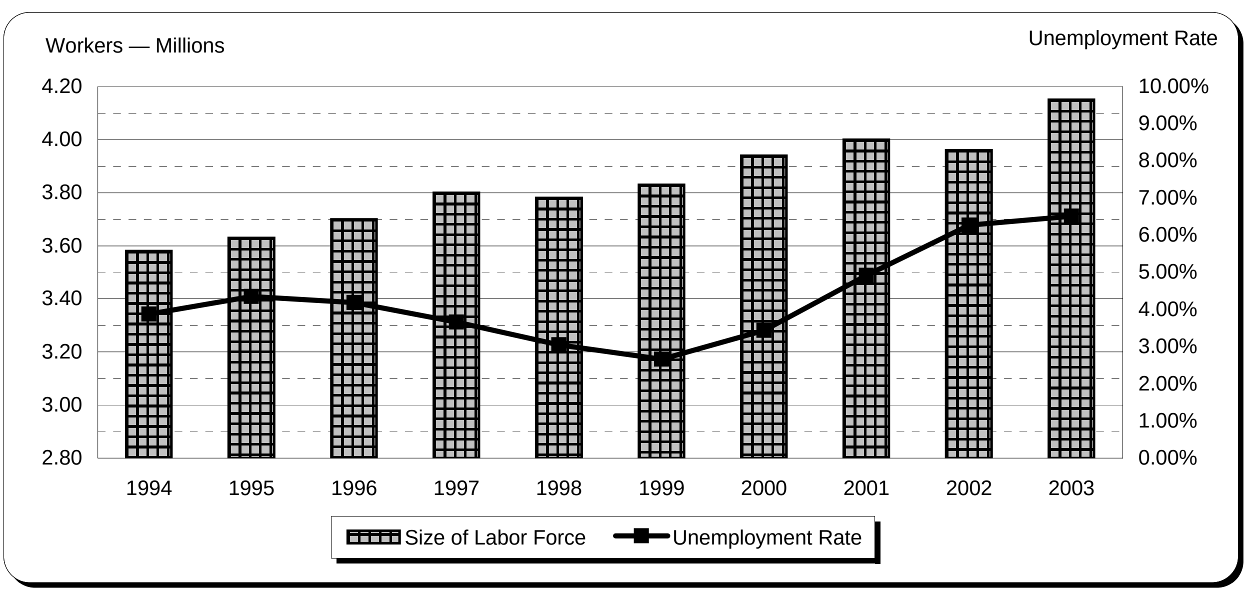
[3] Labor Force Data - As of June 30 — *N.C. Employment Security Commission*

Table 10

	North Carolina Civilian Labor Force Data			[3]	North Carolina - Other Data		
					[4]	[5]	[6]
Year	**Total**	**Employed**	**Unemployed**	**Unemployed Percentage Rate**	**Public School Enrollment**	**Motor Vehicles Registered**	**Residential Construction Authorized**
2003	4,152,243	3,882,026	270,217	6.51%	1,303,777	7,624,272	38,137
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
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 1994 to 2003



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*

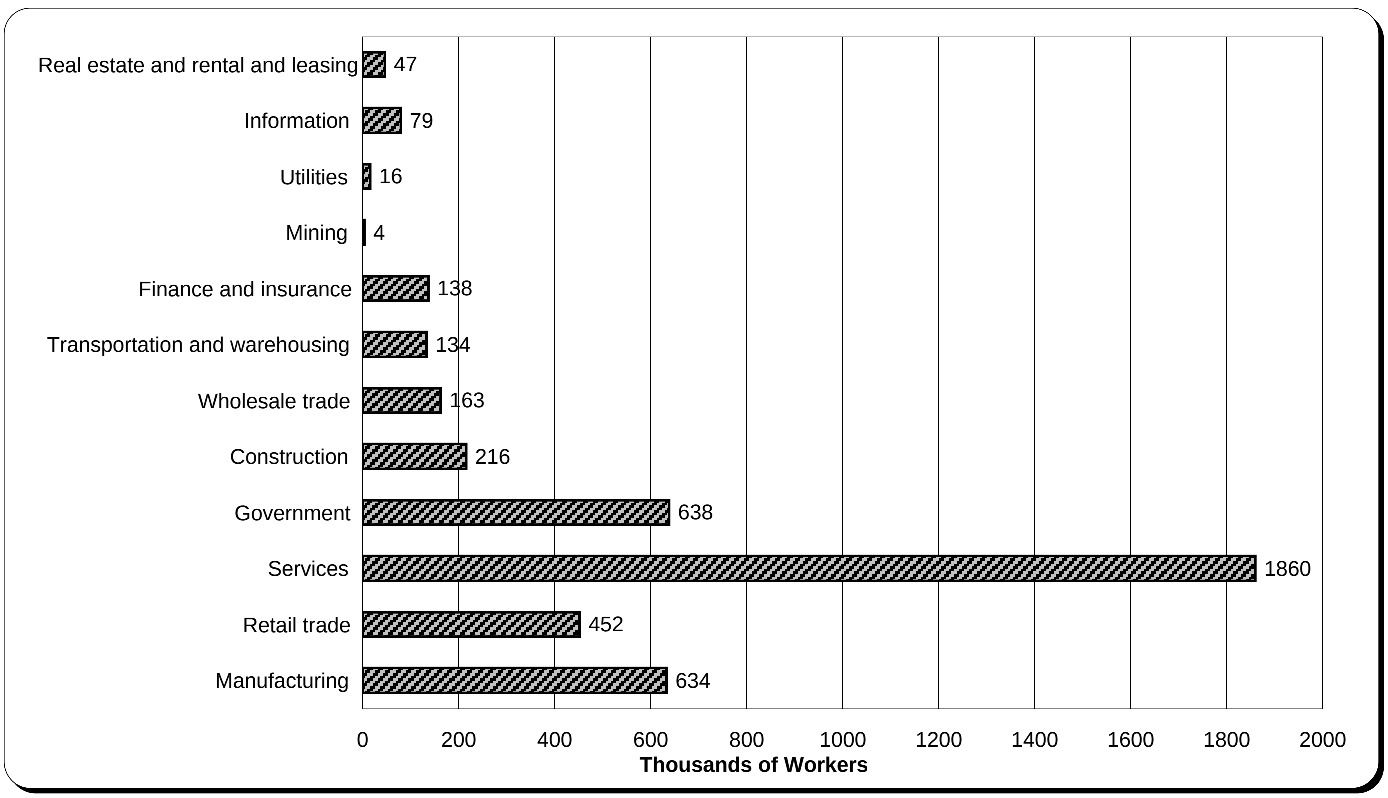
TEN LARGEST NON-AGRICULTURAL INDUSTRIES BY NUMBER OF EMPLOYEES

For the Calendar Years 1993-2002 *Table 11*

(Expressed in Thousands of Workers)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Manufacturing	633.9	674.8	750.4	769.2	788.7	800.7	810.5	819.5	827.1	814.3
Retail trade	452.4	459.1	467.3	462.1	447.9	446.9	432.3	423.7	403.4	388.8
Services	1,859.5	1,836.6	1,811.9	1,781.4	1,718.4	1,625.6	1,568.6	1,505.6	1,457.9	1,390.1
Government	638.0	633.9	614.6	605.7	596.4	574.3	559.2	547.7	538.5	524.4
Construction	215.6	226.9	232.0	228.7	221.4	207.7	197.0	180.7	173.1	161.8
Wholesale trade	162.8	160.0	166.0	165.0	159.7	154.7	148.9	150.9	146.2	142.9
Transportation and warehousing	133.8	139.4	148.3	144.8	142.2	139.5	137.1	137.3	124.9	121.1
Finance and insurance	137.7	126.6	126.6	126.7	126.0	125.1	119.4	110.3	108.3	107.5
Mining	4.2	4.2	4.2	4.3	4.5	4.3	4.1	3.9	3.9	3.8
Utilities	15.5	15.3	15.2	17.6	17.7	23.4	24.2	25.3	26.2	26.9
Information	79.4	82.3	85.6	79.1	76.2	72.0	69.4	65.9	64.0	61.0
Real estate and rental anc leasing	47.2	48.2	48.1	47.4	45.4	44.0	42.3	39.0	36.5	34.1
Total Non-Agricultural Employment	4,380.0	4,407.3	4,470.2	4,432.0	4,344.5	4,218.2	4,113.0	4,009.8	3,910.0	3,776.7

Number of Employees by Industry - 2002 (Non-Agricultural)



Source: North Carolina Employment Security Commission (Data for 2003 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, 1994-2003

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, 1994-2003 *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.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1) Required contribution and investment revenue:										
Earned	$ 6,573	$ 6,749	$ 7,180	$ 7,099	$ 8,354	$ 6,343	$ 6,687	$ 8,136	$ 9,599	12,255
Ceded	1,834	2,134	2,264	2,298	2,041	1,683	1,727	2,453	2,839	3,396
Net earned	4,739	4,615	4,916	4,801	6,313	4,660	4,960	5,683	6,760	8,859
2) Unallocated expenses	2,511	2,843	2,909	2,941	2,706	2,398	2,541	3,214	3,597	3,953
3) Estimated claims and expenses, end of policy year:										
Incurred	4,426	5,078	3,246	14,351	8,496	8,615	21,141	6,449	4,846	2,690
Ceded	—	359	—	6,862	700	357	—	—	—	—
Net incurred	4,426	4,719	3,246	7,489	7,796	8,258	21,141	6,449	4,846	2,690
4) Paid (cumulative) as of:										
End of policy year	2,741	3,790	2,061	9,595	2,044	4,077	13,158	422	392	1,921
One year later	4,348	5,107	3,723	13,129	4,193	5,931	15,818	2,475	640	
Two years later	4,429	5,242	3,742	13,803	4,297	6,108	17,368	2,475		
Three years later	4,437	5,246	3,744	13,810	4,324	6,388	17,368			
Four years later	4,440	5,246	3,760	13,822	4,324	6,388				
Five years later	4,440	5,246	3,760	13,822	4,324					
Six years later	4,440	5,246	3,760	13,822						
Seven years later	4,440	5,246	3,760							
Eight years later	4,440	5,246								
Nine years later	4,440									
5) Reestimated ceded claims and expenses	—	359	—	6,862	700	357	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year	4,426	4,719	3,246	7,489	7,796	8,258	21,141	6,449	4,846	2,690
One year later	4,445	4,943	3,814	6,771	3,724	6,740	17,240	2,475	4,846	
Two years later	4,445	4,927	3,789	7,023	3,735	6,161	17,368	2,475		
Three years later	4,445	4,887	3,765	6,976	3,640	6,031	17,368			
Four years later	4,440	4,887	3,760	6,960	3,624	6,031				
Five years later	4,440	4,887	3,760	6,960	3,624					
Six years later	4,440	4,887	3,760	6,960						
Seven years later	4,440	4,887	3,760							
Eight years later	4,440	4,887								
Nine years later	4,440									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	14	168	514	(529)	(4,172)	(2,227)	(3,773)	(3,974)	—	—

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

For the Fiscal Years 1994-2003 *Table 13*

	Fiscal Years Ended June 30									
State Agency	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**
Education:										
Public education [1]	142,876	139,503	138,623	133,531	130,525	127,578	123,027	116,695	113,123	108,649
Higher education..............	30,036	33,749	33,756	33,326	31,556	31,173	30,607	30,386	30,094	29,611
Community colleges..........	14,406	13,770	13,045	13,045	11,192	10,534	10,309	10,729	10,814	10,892
Total Education.............	187,318	187,022	185,424	179,902	173,273	169,285	163,943	157,810	154,031	149,152
% Annual growth............	**0.16%**	**0.86%**	**3.07%**	**3.83%**	**2.36%**	**3.26%**	**3.89%**	**2.45%**	**3.27%**	
% Cumulative growth......	**25.59%**	**25.39%**	**24.32%**	**20.62%**	**16.17%**	**13.50%**	**9.92%**	**5.80%**	**3.27%**	
All Other:										
Health and human services [2]................	17,984	18,103	18,754	18,640	18,606	19,724	18,373	18,373	18,191	17,753
% Annual growth............	**(0.66)%**	**(3.47)%**	**0.61%**	**0.18%**	**(5.67)%**	**7.35%**	**0.00%**	**1.00%**	**2.47%**	
% Cumulative growth......	**1.30%**	**1.97%**	**5.64%**	**5.00%**	**4.80%**	**11.10%**	**3.49%**	**3.49%**	**2.47%**	
Correction	18,845	19,062	19,001	19,217	18,796	19,774	19,099	18,879	17,890	13,592
% Annual growth............	**(1.14)%**	**0.32%**	**(1.12)%**	**2.24%**	**(4.95)%**	**3.53%**	**1.17%**	**5.53%**	**31.62%**	
% Cumulative growth......	**38.65%**	**40.24%**	**39.80%**	**41.38%**	**38.29%**	**45.48%**	**40.52%**	**38.90%**	**31.62%**	
Transportation..................	16,550	16,505	16,524	16,281	16,081	17,010	16,536	16,411	16,593	15,451
% Annual growth............	**0.27%**	**(0.11)%**	**1.49%**	**1.24%**	**(5.46)%**	**2.87%**	**0.76%**	**(1.10)%**	**7.39%**	
% Cumulative growth......	**7.11%**	**6.82%**	**6.94%**	**5.37%**	**4.08%**	**10.09%**	**7.02%**	**6.21%**	**7.39%**	
Judicial	5,460	5,463	5,458	5,438	5,337	5,486	5,124	4,978	5,002	4,915
% Annual growth............	**(0.05)%**	**0.09%**	**0.37%**	**1.89%**	**(2.72)%**	**7.06%**	**2.93%**	**(0.48)%**	**1.77%**	
% Cumulative growth......	**11.09%**	**11.15%**	**11.05%**	**10.64%**	**8.59%**	**11.62%**	**4.25%**	**1.28%**	**1.77%**	
Other................................	18,456	18,568	18,673	18,345	17,465	16,457	16,964	16,730	16,921	16,186
% Annual growth............	**(0.60)%**	**(0.56)%**	**1.79%**	**5.04%**	**6.13%**	**(2.99)%**	**1.40%**	**(1.13)%**	**4.54%**	
% Cumulative growth......	**14.02%**	**14.72%**	**15.37%**	**13.34%**	**7.90%**	**1.67%**	**4.81%**	**3.36%**	**4.54%**	
Total Positions..................	264,613	264,723	263,834	257,823	249,558	247,736	240,039	233,181	228,628	217,049
N.C. population (1000's)	**8,454 [3]**	**8,320**	**8,186**	**8,049**	**7,648**	**7,546**	**7,429**	**7,308**	**7,185**	**7,061**
Annual growth	**1.61%**	**1.64%**	**1.70%**	**5.25%**	**1.35%**	**1.58%**	**1.66%**	**1.70%**	**1.76%**	
Cumulative growth	**19.73%**	**17.83%**	**15.93%**	**13.99%**	**8.31%**	**6.87%**	**5.21%**	**3.50%**	**1.76%**	

[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 2003 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2003 amount.

SCHEDULE OF MISCELLANEOUS STATISTICS

As of June 30, 2003 *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	78,490
State police protection:	
Number of stations	61
Number of state police	1,689 [1]
Higher Education:	
Community colleges	
Number of campuses	58
Number of students [average annual full time equivalent (FTE)]	180,563
State universities	
Number of campuses	16
Number of regular term students (FTE)	152,006
Number of regular term teaching positions (FTE)	10,993
Recreation:	
Number of State parks and other recreational areas	57
Area of State parks (acres)	171,409
Area of State forests (acres)	373,078

Sources:

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

[1] - Effective January 3, 2003, Motor Vehicle Enforcement moved to the State Highway Patrol.

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North Carolina Office of the State Controller
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Raleigh, North Carolina 27699-1410

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