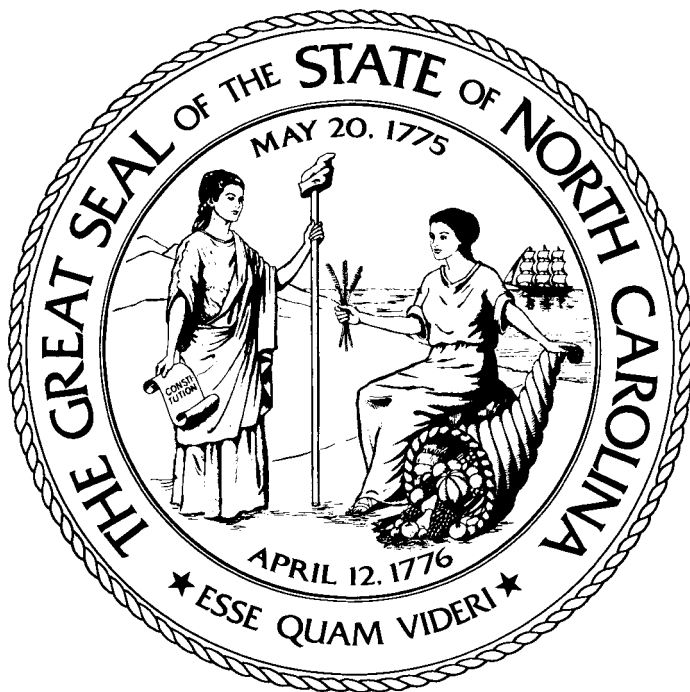


NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 1999



JAMES B. HUNT, JR.
GOVERNOR

EDWARD RENFROW
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

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



JAMES B. HUNT, JR.
Governor of North Carolina

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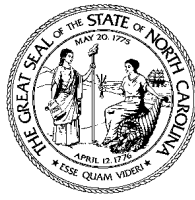
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INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

James B. Hunt, Jr., Governor

Edward Renfrow, State Controller
Gwen Canady, Chief Deputy

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

Members of the North Carolina General Assembly

It is our pleasure to furnish you with the 1999 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.39. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of North Carolina. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

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

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

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types and account groups of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. Most component units are presented discretely in the financial statements. Two component units are blended into the financial statements because their activities are so intertwined with the State that they are substantively part of the State. The State's discretely presented component units are the University of North Carolina system, the State's community colleges, and various proprietary organizations providing specific services to the public and private sector. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including public education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation;

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transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Issues and Initiatives

During fiscal year 1998-99, the Governor, the General Assembly, and the departments and agencies of State government worked to address key issues facing the citizens of North Carolina.

Education

The ABCs accountability model is designed to measure achievement and performance with the goal of improving the overall level of student achievement in North Carolina. Testing results for the 1998-99 ABCs of Public Education show that the percentage of K-8 students performing at grade level or better in reading and math continues to increase, moving from 66.3% in 1997-98 to 69.1% in 1998-99. This represents a 9.1% increase since the ABCs began in 1996-97, when 60% were proficient. The number of schools achieving Schools of Excellence recognition doubled from 24 in 1997-98 to 50 in 1998-99. Schools recognized as Schools of Distinction also increased significantly, going from 290 in 1997-98 to 408 in 1998-99. A School of Excellence has at least 90% of its students performing at or above Achievement Level III and met or exceeded its expected growth/gain goal. A School of Distinction has at least 80% of its students performing at or above Achievement Level III. Overall, 81.2% of the schools met either expected or exemplary growth/gain standards. The number of low-performing schools dropped from 30 to 13, six of which were charter schools.

The ABCs model is designed to help low-performing schools improve. Low-performing schools are those schools with less than 50% of their students performing at Achievement Level III and who do not achieve expected growth/gain. This year, 13 schools were identified as low performing. A select group of low-performing schools are chosen each year to receive mandatory assistance based on the percentage of their students at or above Achievement Level III and on their lack of achieving growth/gain. Eleven of the 1997-98 low-performing schools were assigned State Assistance Teams during the 1998-99 school year, which resulted in nine of the eleven schools meeting or exceeding their growth/gain goals under the 1998-99 ABCs model.

Environment

In July 1999, the General Assembly approved legislation enacting a major portion of Governor Hunt's Clean Air Plan for protecting public health, the environment and jobs. The legislation is aimed at reducing car and truck emissions, a major contributor to ozone smog. It will require the use of low-sulfur gasoline statewide by January 2004, and expand the motor vehicle emissions testing program from nine counties now to 48 counties by July 2006.

The State budget includes an additional \$19.9 million in critical funding for limiting sediment pollution, for wetland and buffer protection efforts to restore water quality in North Carolina's rivers and other environmental and natural resource programs.

On July 21, 1999, the Clean Water Act of 1999 became law. The Clean Water legislation extends the moratorium on new or expanded large-scale hog farms, raises the maximum water pollution fine from \$10,000 per day to \$25,000 per day and imposes public disclosure requirements for spills at wastewater treatment plants and from animal operations. The bill also authorizes the Environmental Management Commission to adopt temporary rules to protect water quality in the Cape Fear, Catawba and Tar-Pamlico River basins.

On November 3, 1998, North Carolina voters overwhelmingly approved an \$800 million clean water bond referendum. The clean water bonds will provide \$330 million in State grants to help local governments repair and improve water supply systems and wastewater collection and treatment, and to undertake water conservation and reuse projects. Another \$300 million is to be made available in clean water loans. Outdated systems are allowing millions of gallons of untreated or partially treated wastewater to spill into the state's rivers and streams. Many communities cannot foster new development or create new jobs because their wastewater systems are already operating at or above capacity. The N.C. Rural Economic Development Center has

released a study of more than 650 water and sewer systems in mostly rural areas. The study found that the need for improving and repairing water and sewer systems is more than \$11 billion.

Smart Start

In 1993, Governor Hunt proposed significant changes in the way North Carolina provided services to children. The Smart Start program is a comprehensive early childhood initiative designed to provide quality, affordable day care to every child who needs it in North Carolina. Smart Start also boosts other children's services, including basic health care, and provides family-based resources to help at-risk families break the cycle of poverty.

The 1993 General Assembly enacted into law several Smart Start initiatives. A public-private partnership was established to bring together parents, child-care providers, educators, religious and community leaders and non-profit officials to develop a comprehensive blueprint for improving early childhood education, health care and other services. The 1993 program encourages local communities to form similar public-private partnerships to ensure that each child in that community has access to affordable, high quality day care. Smart Start established the guidelines for lowering the State's child-care staff to child ratios for the youngest children. Additional State monitors were hired to ensure that the new program standards were being met.

The State Auditor's most recent report on the Smart Start Program presents information on both the local partnerships and the North Carolina Partnership for Children for the fiscal years ending June 30, 1996 and 1997. Since the inception of the program there has been a significant decrease in the number of audit reports containing audit findings. The percentage of reports with audit findings in the first two years of audits was 92%. The percentage for fiscal years 1996 and 1997 fell to 53% and 38% respectively, while the total number of partnerships grew from 13 to 48. The State Auditor indicated that the results of the partnership audits and the review of management controls still highlight several statewide issues that need to be addressed by the State's leadership.

Smart Start Issues:

The need for improvement in the oversight capabilities of the North Carolina Partnership for Children, in the form of providing technical assistance and training to the local partnerships.

The continuing need for a uniform fund accounting system and chart of accounts.

The need for a statewide uniform contract management and monitoring process.

The need for more efficient and cost-effective administration.

The challenge of continuing to meet the requirement of having to provide non-State matching funds equal to 10% of the State appropriation each year.

Hurricane Floyd

Hurricane Floyd passed through the eastern portion of North Carolina on September 15 and 16. Hurricane and tropical force winds, torrential rains, and flooding left one-third of North Carolina suffering from an unprecedented natural disaster. The record-high floodwaters of Hurricane Floyd forced thousands of people from their homes. Many citizens lost homes, farms, and businesses. Governor Hunt is seeking \$5.3 billion in federal disaster aid to help the recovery efforts in rebuilding homes, restoring transportation systems, and other infrastructure, and in providing resources for critical environmental cleanup efforts. Disputes in the U.S. Congress may delay the requested federal aid. The State is estimating that it will need to set-aside \$500 million in state matching funds over the next several years to satisfy federal requirements.

Summary of the damage and devastation:

- 48 people confirmed dead, 5 missing, 4 reported injured.
- The agriculture industry was extremely hard hit. Some 2.8 million chickens and turkeys, 880 cattle and more than 30,000 hogs died in the floods.
- Thousands of homes damaged by floodwaters in 39 of the state's 100 counties; almost 9,000 either severely impacted or destroyed.
- At peak, more than 48,000 people were housed in official shelters.
- More than 650 roads were closed during the peak of the devastation. Three weeks after the storm, almost 300 roads remain closed in eastern North Carolina because of high water or damage. In addition, 11 bridges and culverts were destroyed and 750 locations with drainage pipelines were damaged or lost.
- More than 1.2 million North Carolina customers lost electricity during Floyd; and three weeks later, more than 7,780 still did not have power. These remaining customers were determined to be "unconnectable" because their homes were submerged or due to the requirement that the homes be inspected prior to restoring power.
- There are more than 200 travel trailers occupied, 87 at a group site in Edgecombe County, and 7 at private sites. Construction is underway for temporary housing in Edgecombe, Pitt, Lenoir, Pender and Wayne counties.

New Governmental Reporting Model Infrastructure Reporting

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

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

"The fact that no information about this enormous category of assets currently exists in annual financial reports leaves readers with an incomplete picture of government," Mr. Tom Allen, chairman of GASB, said. "For example, if a state decided to issue bonds specifically to finance improvements to its in-state highway system, the current financial statements would show the debt, but not the corresponding assets. Does the debt on the state's books mean that it is less well off? No, because the state used the proceeds from the bond sale to make an investment. But that investment currently does not appear on the state's books. Our new reporting system will make financial reports more complete."

We expect that our primary focus related to infrastructure will necessarily be at the N.C. Department of Transportation and the State's roads and highway systems. However, a significant amount of effort may be required for our universities and community colleges to complete their individually published financial statements based on the new standard defined by GASB Statement No. 34. As we look at the various aspects of the new GASB standard, the new

infrastructure accounting and reporting requirements seem to give us our greatest cause for concern. There undoubtedly will be additional cost to the State to implement this new GASB standard and to maintain the accounting and reporting of this new information on a timely basis.

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

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

North Carolina Highway System: Condition Assessment and Funding

A major new financial reporting requirement for governments, discussed above, is the inclusion of infrastructure assets in governments' financial statements, to include depreciation and accumulated depreciation. One allowable alternative to depreciating infrastructure assets is to demonstrate that the infrastructure assets are being maintained at an acceptable condition level. Our State road system includes an estimated 77,856 miles of roads (or 144,756 lane miles) and 17,145 road-related structures. The Department of Transportation is required by G.S. 136-44.3 to survey and report on the condition of the State highway system. This report provides estimates of :

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

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

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

the forces of Hurricane Floyd's torrential rain and flooding dealt a destructive blow to many roads, bridges, and drainage systems in eastern North Carolina.

The most current *Condition* report highlights that while road maintenance funding has increased over the last decade, the increase in funding has not kept pace with inflation. The December 1998 report estimated total maintenance needs, including backlogs, ranges from \$705 million in fiscal year 1999-2000, to \$1.035 billion in fiscal year 2008-2009 (averaging \$849.5 million per year). The approved State budget included \$493.1 million road maintenance funding for fiscal year 1999-2000. In addition, \$20 million per year from secondary construction funds are used to stabilize unpaved roads scheduled to be paved in the next few years. These stabilization functions are actually maintenance. By adding this \$20 million, maintenance funding equals \$513.1 million per year, or \$191.9 million (27%) less than the estimated funding needs for fiscal year 1999-2000.

Year 2000

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately, many programs (if not corrected) will not be able to distinguish between the Year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is the leap year calculation. Some programs are unable to detect the Year 2000 as a leap year.

All information systems in North Carolina that use dates to generate data will be affected by the new millennium: for example, kindergarten registration and blood supply could be affected. In addition, non-information systems such as forms need to be evaluated because they provide input to software applications. Mail processing equipment may need to be modified to handle the new millennium. Other areas such as elevators, security systems, and vaults will be affected by the Year 2000.

In early 1997, the Year 2000 Project Team (including a statewide Steering Committee and agency co-ordinators) was formed to manage the Year 2000 project from a statewide perspective. The Year 2000 Project Team is responsible for prioritizing systems statewide, developing and maintaining statewide conversion schedules, analyzing third-party product compliance, maintaining a statewide Year 2000 repository, defining the overall conversion approach and milestones, reporting the status of statewide conversion projects, providing statewide communications and coordination, reporting the status of statewide Year 2000 funding and use, reporting the status of statewide quality assurance, developing and maintaining a statewide risk management plan, coordinating the Year 2000 budget process, maintaining an evolving cost estimate, and analyzing the automated tool offerings.

The executive departments, universities, university hospitals, and community colleges are responsible for completing the Year 2000 conversion efforts in their areas. They will work within the framework set forth by the Year 2000 Steering Committee and carried through by the Statewide Year 2000 Project Team.

As of year-end, the State has contracted with several vendors for assistance in addressing the Year 2000 issues relating to its computer systems and other electronic equipment. The amount of those commitments is approximately \$131 million.

The following stages have been identified as necessary to address the Year 2000 issue.

Awareness Stage—Encompasses establishing a budget and project plan (for example, a timeline or chart noting major tasks and due dates) for dealing with the Year 2000 issue.

Assessment Stage—When the organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. An organization may decide to review all system components or, through a risk analysis, identify only mission-critical systems and equipment (systems and equipment critical to conducting operations).

Remediation Stage—When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to address Year 2000 systems or equipment issues, and the required system changes are made.

Validation/Testing Stage—When the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

As of June 30, 1999, 1,093 application systems existed in the statewide inventory. Of those, 399 were reported by the agencies and universities as Year 2000 ready without remediation. The remaining 694 systems are in the following phases of remediation: 16 are in the assessment stage; 35 are in the remediation stage; 102 are in the validation/testing stage; and 541 have been fully remediated and placed back into production. The systems that have yet to be fully remediated have been grouped by function in the following table.

<u>Functional Category</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation/ Testing</u>
General government	1	2	11
Education	10	5	4
Health and human services ..	—	3	19
Economic development	—	—	4
Environment and natural resources	1	1	8
Public safety, corrections, and regulation	1	5	5
Transportation	—	—	7
Agriculture	—	2	3
Universities	3	17	41
Total	<u>16</u>	<u>35</u>	<u>102</u>

The assessment process for computer systems is continuous and ongoing. The Year 2000 Project Team is also working with agencies and universities to address Year 2000 readiness issues in the other following areas: PC/LAN hardware and software, workplace infrastructure (facilities, telephones), embedded chips (medical/lab equipment, transportation vehicles, enforcement systems), supply chain partners, and business continuity planning.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the State and its component units are or will be Year 2000 ready, that the State's and its component units' remediation efforts will be successful in whole or in part, or that parties with whom the State and its component units do business will be Year 2000 ready. In addition, the completion of these stages is not a guarantee that systems and equipment will be Year 2000-compliant.

Other Issues

Tobacco Settlement

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. North Carolina could receive approximately \$4.6 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 16, 1999, the General Assembly enacted a law approving the establishment of a foundation to provide economic impact assistance to economically affected or tobacco dependent regions in North Carolina. The court must review the law for compliance with the intent outlined in the Consent Decree. The foundation would receive 50 percent of the settlement. The remaining half would be split equally between two trust funds established by the General Assembly. One trust fund would be for the benefit of tobacco farmers, quota holders, and persons in tobacco-related businesses, and the second trust fund would be for health programs.

Intangibles Tax Ruling

On May 25, 1999, the North Carolina Superior Court entered judgement in *Smith* against the State in the amount paid by non-protesting taxpayers for tax years 1991-1994. In a closely related class action tax refund case, *Shaver v. State of North Carolina*, filed July 16, 1998, non-protesting taxpayers sought refunds, totaling approximately \$100 million, for tax year 1990. On July 8, 1999, class counsel in *Smith* and *Shaver* entered into a settlement agreement with the State, subject to the General Assembly's approval, providing for the payment of the *Smith* and *Shaver* claims for a total of \$440 million to be paid in two installments. The settlement agreement provides for an initial payment of \$200 million to be paid on October 1, 1999, and a final payment of \$240 million on July 10, 2000. On July 9, 1999, the Superior Court entered judgement against the State in *Shaver*, formalizing the memorandum ruling to that effect on July 1, 1999.

North Carolina Low-Level Radioactive Waste Management Authority/Southeast Interstate Low-level Radioactive Waste Management Compact (Southeast Compact)

At June 30, 1999, the North Carolina Low Level Radioactive Waste Management Authority (component unit proprietary fund) had a \$33.384 million retained earnings deficit. The financial statements of the Authority have been prepared following the accounting principles that apply to developmental stage enterprises. The retained earnings deficit reflects losses sustained in the developmental stage. The North Carolina Low Level Radioactive Waste Management Authority was created in 1987 to locate, build, operate and close a repository in North Carolina. In July 1999, the General Assembly ratified Senate Bill 247 which withdraws North Carolina from the Southeast Compact after the State's unsuccessful attempts to locate a suitable geographic site for toxic waste storage. Each state within the Southeast Compact was to assume responsibility, on a twenty year rotating basis, as the Southeast's low-level radioactive waste repository. Additionally, Senate Bill 247 established that the sole function of the Authority is to finalize all business relating to closure and restoration of its proposed waste site on or before June 30, 2000. As of July 1, 2000, the Authority will officially cease to exist. Since the Authority currently has no revenue sources, the advance to the Authority is considered to be uncollectible. At June 30, 1999, total assets were \$450 thousand and total liabilities were \$235 thousand.

General Obligation Debt

In November 1996, the voters of North Carolina approved bonds in the amount of \$1.8 billion for school construction and \$950 million for highway construction. In November 1998, North Carolina voters approved \$800 million of new debt to finance grants and loans to local government units for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation and water reuse projects; and an additional \$200 million of new debt to finance grants, loans, or other financing to public or private entities for construction of natural gas facilities. The amount of authorized, but unissued bonds was \$2.15 billion as of June 30, 1999.

The third bond issue related to the \$1.8 billion of school construction bonds which were approved in November 1996 was issued April 1, 1999 in the amount of \$450 million. These bonds were issued at rates ranging from 4.5% to 5.0% with a final maturity of April 1, 2018.

The State sold \$450 million of general obligation school construction bonds on March 17, 1999. Additionally, the State sold \$25.905 million of Clean Water Refunding Bonds on March 17, 1999. The refunding bonds provided funds for refunding \$24 million of Clean Water Bonds, Series 1994A.

Economic Condition and Outlook

Condition

1999 was the eighth straight year of economic growth. Most of the economic indicators moved in a favorable direction during the year. Nationally, the economy grew at a robust 3.7% real (inflation-adjusted) rate, and the unemployment rate fell to a generation low 4.2%. However, inflation, which can accelerate when growth is sustained for a long period, remained tame. The Consumer Price Index rose a modest 2.2%, and a broader measure of inflation increased only 1.3%.

One indicator of concern in 1999 was interest rates. Interest rates trended higher, especially during the second half of the year. Short-term interest rates rose one-half percentage point, while long-term interest rates rose over a full percentage point. Higher interest rates caused some jitters in the financial markets, particularly the stock market.

Technological improvements and the resulting gains in labor productivity continued to drive the economy. Worker productivity rose 2.5% in 1999. This allowed businesses to increase worker compensation per hour by 4% without comparable increases in product prices.

Consumer spending accounts for the majority of economic activity, and consumers were on a spending spree in 1999. Consumer spending, after inflation, jumped 5%, faster than consumer take-home pay. As a result, consumers continued to take on more debt during the year, prompted by the good economy and a bullish stock market. But, despite the fact that consumer debt loads were at an all-time high, debt payment delinquencies did not rise significantly.

With international trade becoming a greater part of the economy, foreign economic conditions are increasingly important. Fortunately, after a shaky second half of 1998, foreign markets stabilized in 1999. With the U.S. economy growing faster than most foreign economies in 1999, the U.S. trade deficit grew.

Most of North Carolina also enjoyed a good economy in 1999. The state's Gross State Product is estimated to have grown 5%, and the statewide unemployment rate averaged near 3%. The state continued to be ranked very high as an attractive location for new businesses in surveys of executives. Indeed, much of the recent growth in large urban centers is a result of in-migration of households from other states.

Yet, as part of this economic growth, North Carolina's economy continues to undergo a transformation. Service jobs are increasing relative to manufacturing jobs. Also, within manufacturing, traditional industries like tobacco, textiles, and apparel continue to downsize in employment, while "growth" industries like electronic equipment, transportation equipment, and metals add jobs.

Importantly, this transformation is not occurring equally in all regions of North Carolina. In general, the urban centers, especially in the Piedmont, are attracting the growth manufacturing industries and business services, like computer software development, while many rural counties are suffering from the loss of tobacco and textile jobs. Indeed, nine urban counties account for 62% of the new jobs added in North Carolina since 1991. At the other end of the spectrum, twenty-five counties – all but one considered rural – have actually lost jobs since 1991. This urban/rural economic gap shows no signs of narrowing.

Finally, a natural disaster in the form of Hurricane Floyd hit North Carolina in late 1999, and its aftermath will have profound economic impacts. Hurricane Floyd wrecked havoc on counties accounting for 20% of the state's economy. Millions of dollars of wealth were destroyed and thousands of lives were disrupted. Dealing with the aftermath of Hurricane Floyd will be a major challenge for North Carolina's economy in 2000.

Outlook

The national economy is expected to continue expanding in 2000. Growth may be significantly down in the early part of the year due to adjustments related to Y2K. These adjustments are expected to be short-lived and won't prevent a ninth straight year of economic growth.

The U.S. economy is projected to grow somewhat slower in 2000 than in 1999, with real Gross Domestic Product increasing 2.7% compared to 1999's rate of 3.7%. The reason is the upward trend in interest rates. Interest rates are expected to rise one-fourth to one-half percentage point in 2000. Higher interest rates reduce borrowing by businesses and consumers and thereby slow spending in the economy.

Several leading inflationary indicators suggest the rate of price increases will be slightly faster in 2000. A key determinant of inflation is labor costs. To date in the current expansion, technological improvements, advances in labor productivity, and increased domestic and foreign competition have kept labor costs in check. If these conditions remain, inflation will not be a problem in 2000.

A watchful eye should be kept on the stock market in 2000. The strong gains in the stock market in recent years have certainly contributed to national wealth and economic prosperity. Any sustained downward trend in the stock market could cause consumers to retrench, lower their spending plans, and potentially slow the economy to near recessionary levels.

The North Carolina economy is also expected to grow in 2000, although also at a slower rate than in 1999. Growth in real Gross State Product will be closer to 4% in 2000, down from 1999's 5% rate.

Ironically, the spending associated with the rebuilding and recovery from Hurricane Floyd will boost the state's economic numbers in 2000. The real economic damper from the disaster will come in 2001 and thereafter, as businesses and households in the eastern part of the state will find their resources depleted by the recovery spending. Floyd will also likely speed the on-going economic transformation in the State's eastern counties. Recovering the wealth destroyed by Floyd will take several years.

— *Economic analysis prepared by Dr. Michael L. Walden, Professor
North Carolina State University
October 31, 1999*

Financial Information

Internal Control

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

Budgetary Control

In addition, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund and most departmental special revenue funds are included in the annual appropriated budget. The State Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level by way of quarterly allotments, with allotment control exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriation Bill. This "Certified Budget" is the legal expenditure authority; however, executive changes to the legal budget may be approved by the Office of State Budget and Management (OSBM). This results in the "Final Budget" presented in the financial statements.

GAAP Accounting

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

Except for exhibits and notes clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

Results of Operations General Governmental Funds

Revenues and Other Financing Sources

Revenues and other financing sources for general governmental functions (General Fund, special revenue funds, and capital projects funds) amounted to \$24.15 billion for the fiscal year ended June 30, 1999, using the modified accrual basis of accounting. The major categories of revenues and other financing sources are shown in the following table. Amounts are expressed in millions.

	<u>Amount</u>	<u>Percent of Total</u>
Revenues:		
Taxes.....	\$ 13,818	57.2%
Federal funds.....	6,297	26.1%
Local funds.....	470	1.9%
Investment earnings.....	529	2.2%
Fees, licenses and fines.....	896	3.7%
Other.....	<u>369</u>	1.5%
Total revenues.....	<u>22,379</u>	92.6%
Other Financing Sources:		
Operating transfers in and other sources.....	1,294	5.4%
Proceeds from bond sale.....	450	1.9%
Proceeds from capital leases.....	1	—
Proceeds of refunding debt.....	<u>26</u>	0.1%
Total other financing sources.....	<u>1,771</u>	7.4%
Total Revenues and Other Financing Sources.....	<u>\$ 24,150</u>	100.0%

Tax Revenues. Tax revenues increased by \$530 million in 1999, reflecting a slower rate of growth in income tax collections. Individual income tax collections increased by \$461 million in 1999 to \$6.586 billion, a 7.53% increase over 1998. Sales tax collections grew by \$69.4 million in 1999, a 2.12% increase over 1998. Highway taxes were \$1.505 billion in 1999, \$27.7 million more than in 1998.

Federal Funds. Federal funds revenues grew by \$314 million in 1999, up by 5.2% over 1998. Increases in Federal revenues are due to increased Federal program expenditures for which the State is reimbursed.

Investment Earnings. Investment earnings of \$529 million reflect a decrease of \$47 million in 1999. Investment earnings include realized/unrealized gains, distributed and accrued interest on cash and investments, and securities lending activity. Cash and cash equivalents decreased by \$164.2 million, while investments decreased by \$616.4 million, with \$472 million of the decrease coming from the General Fund.

Expenditures and Other Financing Uses

Expenditures and other financing uses for general governmental purposes totaled \$24.663 billion in 1999, using the modified accrual basis of accounting. The major categories of expenditures and other financing uses, by function, are shown in the following table. Amounts are expressed in millions.

	<u>Amount</u>	<u>Percent of Total</u>
Expenditures:		
Current:		
General government.....	\$ 1,040	4.2%
Education.....	6,254	25.4%
Health and human services.....	7,665	31.1%
Economic development.....	370	1.5%
Environment and natural resources.....	354	1.4%
Public safety, corrections, and regulation.....	1,671	6.8%
Transportation.....	2,509	10.2%
Agriculture.....	73	0.3%
Tax judgments.....	399	1.6%
Capital outlay.....	183	0.7%
Debt service.....	<u>228</u>	0.9%
Total expenditures.....	<u>20,746</u>	84.1%
Other Financing Uses:		
Operating transfers out.....	1,308	5.3%
Operating transfers to component units.....	2,583	10.5%
Payment to refunded debt escrow agent.....	<u>26</u>	0.1%
Total other financing uses.....	<u>3,917</u>	15.9%
Total Expenditures and Other Financing Uses.....	<u>\$ 24,663</u>	100.0%

Significant changes in expenditures. The trend of increases in expenditures, an increase of \$1.8 billion for 1999, was directly related to the continued emphasis on education, health and human services, and transportation. A large portion of the increase in governmental expenditures, *tax judgments*, is the result of the North Carolina Supreme Court ruling in the Bailey case (**Note 18**). On June 9, 1998, representatives of the State and the various retirees involved in the Bailey and Patton cases announced a settlement, which was later approved by the court, in the amount of \$799 million. Of this amount, \$400 million was disbursed in refunds in fiscal year 1998-99, and \$399 million was paid in refunds early in fiscal year 1999-2000. Educational expenditures increased by \$838 million largely because of growth in dollars spent on State administered programs and the increasing costs associated with providing public education. Health and human services increased by \$365 million in 1999. Transportation expenditures increased in fiscal year 1999 by \$125 million. Debt service will continue to climb, a \$58 million increase from 1998 to 1999, as the State continues to issue general obligation debt to fund capital projects for education, highways and utilities.

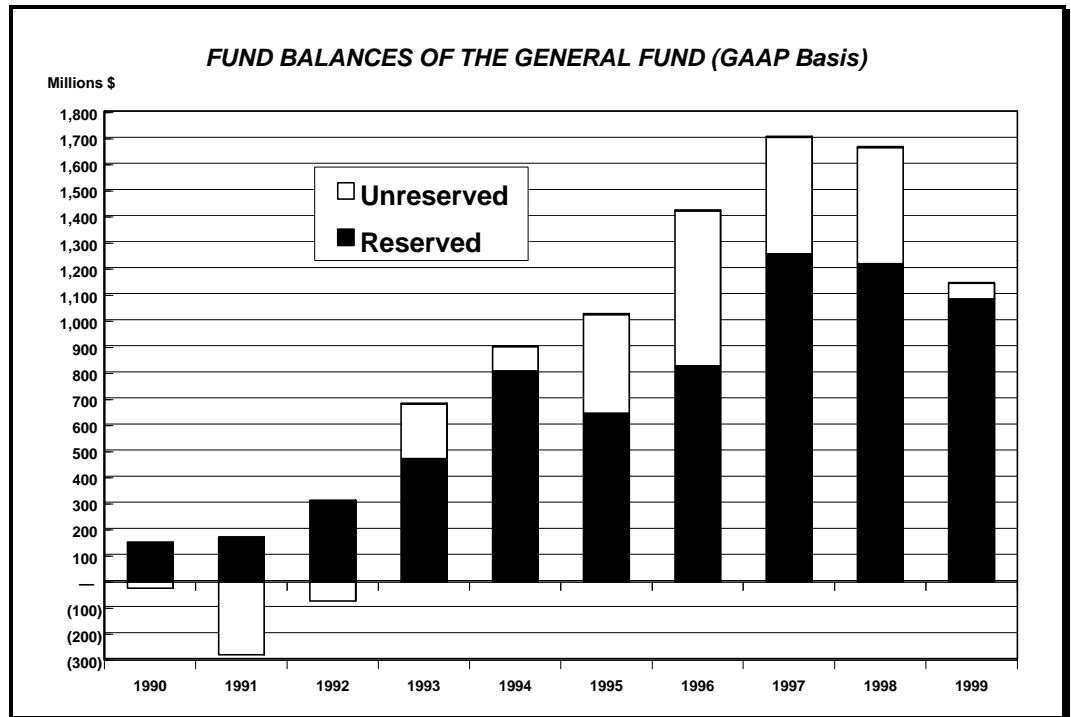
Additional information, in greater detail and for the past ten years, may be examined in the statistical section.

**GAAP
Fund
Balance**

General Fund

The fund balance of the General Fund declined by \$521 million in 1999. Expenditures and transfers out exceeded revenues and transfers in by \$478 million. At June 30, 1999, total fund balance of the General Fund on the modified accrual basis was \$1.144 billion, in comparison to a \$1.665 billion balance at the end of 1998. See **Note 15** of the Notes to the Financial Statements for a discussion of reserved and unreserved fund balance.

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



**Budgetary
Savings
Reserve
Account**

During the 1991 session, the General Assembly established a Savings Reserve Account as a restricted reserved portion of fund balance in the General Fund, becoming effective for the year ended June 30, 1992. Under this legislation, one-fourth of any unreserved credit balance (defined by the General Statutes as "...the credit balance, as determined on a cash basis, not already reserved to the Savings Reserve Account.") remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve until the account contains funds equal to 5% of the amount appropriated to the General Fund operating budget for the preceding year. For the fiscal year ended June 30, 1999, the General Assembly delayed the \$40.4 million deposit into the Savings Reserve Account, leaving the total reserve at \$522.5 million. For fiscal year 1999-2000, the General Assembly voted to use \$200 million from the Savings Reserve Account to be appropriated to fund the first installment payment resulting from the intangibles tax cases in which the State received adverse rulings (See *Intangibles Tax Ruling* above). Early in fiscal year 1999-2000, the Savings Reserve Account reflects a balance of \$322.5 million, which is \$296.2 million below the 5% threshold for the fiscal year ending 1999-2000.

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

Other Funds

Proprietary Funds

Operating revenues and operating expenses for the State's enterprise funds were \$22.424 million and \$50.123 million, respectively, in 1999. Operating loss was \$27.699 million, with the majority of the loss reflected in the Child Health Insurance Program at \$25.232 million.

Combined operating results for the State's internal service funds exhibited continued strength in 1999. Operating revenues and expenses for these cost-reimbursement funds totaled \$1 billion and \$1.1 billion, respectively, in 1999. Principal internal service fund operations include the State Health Plan, the Disability Income Plan, the Death Benefit Plan, Prison Enterprises, the State Property Fire Insurance, Motor Fleet Management, Centralized Computing Services, and State Telecommunications.

Pension Trust Funds

The operations of the Teachers' and State Employees' Retirement System continued its steady growth in 1999. The system's contributions increased by 5.47%. The system experienced a 1% increase in benefit payments to participants. For the fiscal year ended June 30, 1999, the State continued to fund the actuarial required contribution. The State also participates in the Consolidated Judicial Retirement System, the Legislative Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund, the Supplemental Retirement Income Plan of North Carolina, 401(k), and the North Carolina National Guard Pension Fund. The Local Governmental Employees' Retirement System is administered by the State but the State is not a participant.

Debt Administration

At June 30, 1999, the State had a number of debt issues outstanding. These issues included \$2.452 billion in general obligation bonds, \$1.535 billion in revenue bonds in the component unit proprietary funds and \$898 million in revenue bonds in the university funds. North Carolina continues to have AAA bond ratings issued by Standard and Poor's Corporation and Moody's Investors Service, the highest ratings attainable. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers. North Carolina is one of only a very small number of states currently having the AAA ratings. In addition, approximately 25 percent of all AAA ratings for state and local governments nationwide are located in North Carolina.

Cash Management

It is the policy of the State that all agencies, institutions, departments, bureaus, boards, commissions and officers of the State shall devise techniques and procedures for the receipt, deposit and disbursement of monies coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. The State Controller, with the advice and assistance of the State Treasurer, the State Budget Officer, and the State Auditor, develops, implements, and amends the *Statewide Cash Management Policy*. All cash deposited with the State Treasurer by State entities is managed in

pooled investment accounts to maximize interest earnings. During fiscal year 1999, uncommitted State funds were invested in short-term and medium-term U.S. Government notes and bonds, as well as other deposits, which had a composite average yield of 6.159%.

Risk Management

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

Independent Audit

Other Information

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

Acknowledgments

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

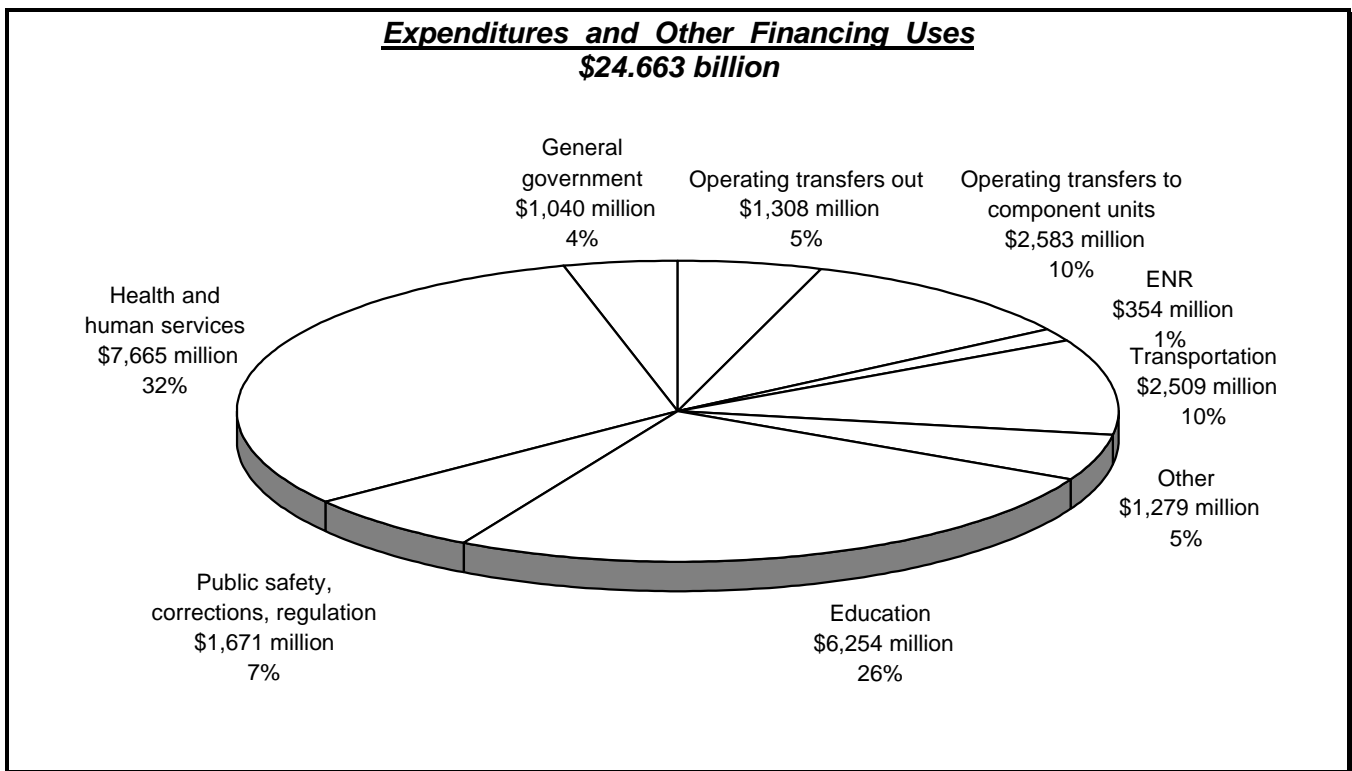
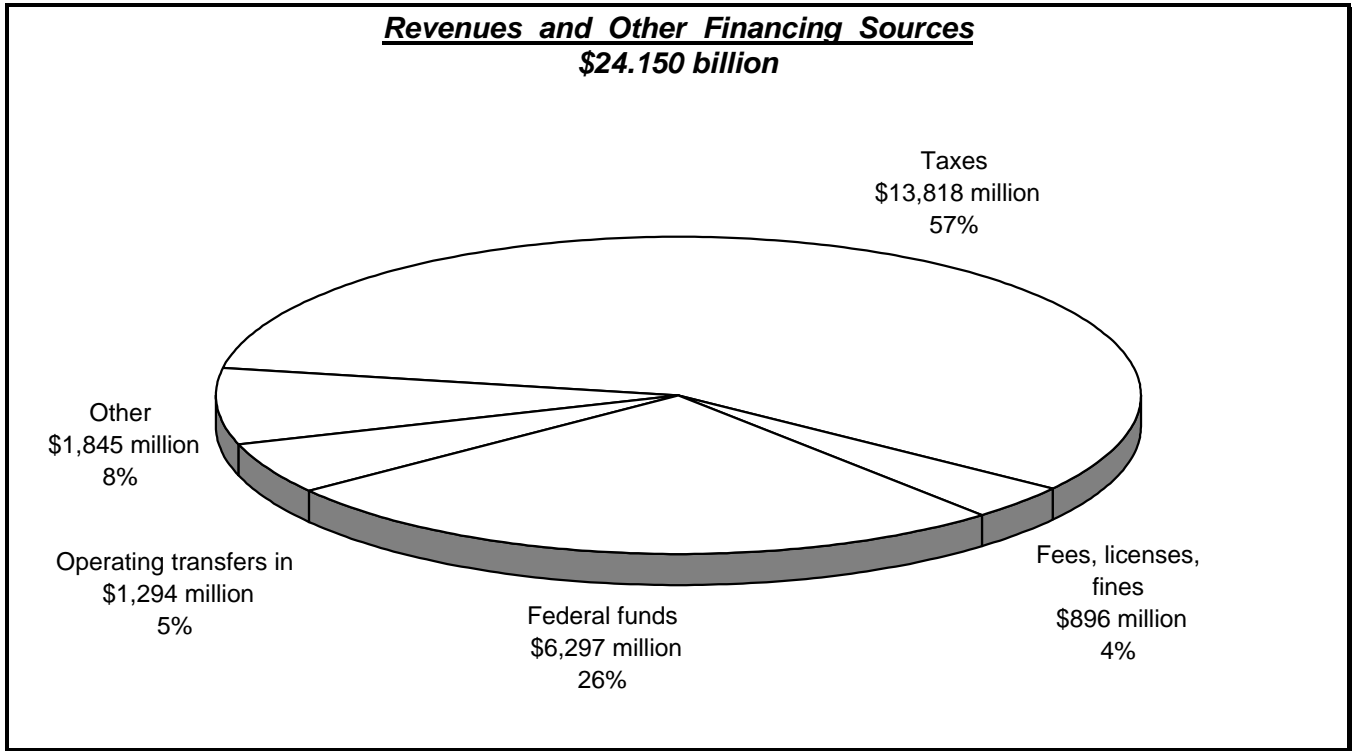
Respectfully submitted,



Edward Renfrow
State Controller

December 3, 1999

General Governmental
General, Special Revenue, and Capital Projects Funds
For the Fiscal Year Ended June 30, 1999



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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

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



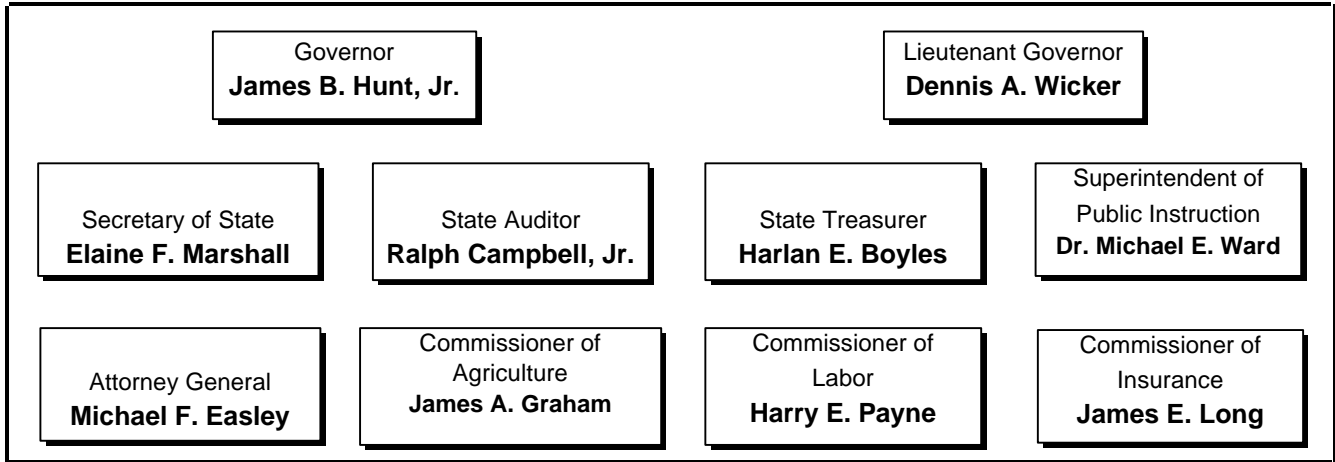
Cary Brubaker
President

Jeffrey L. Essler
Executive Director

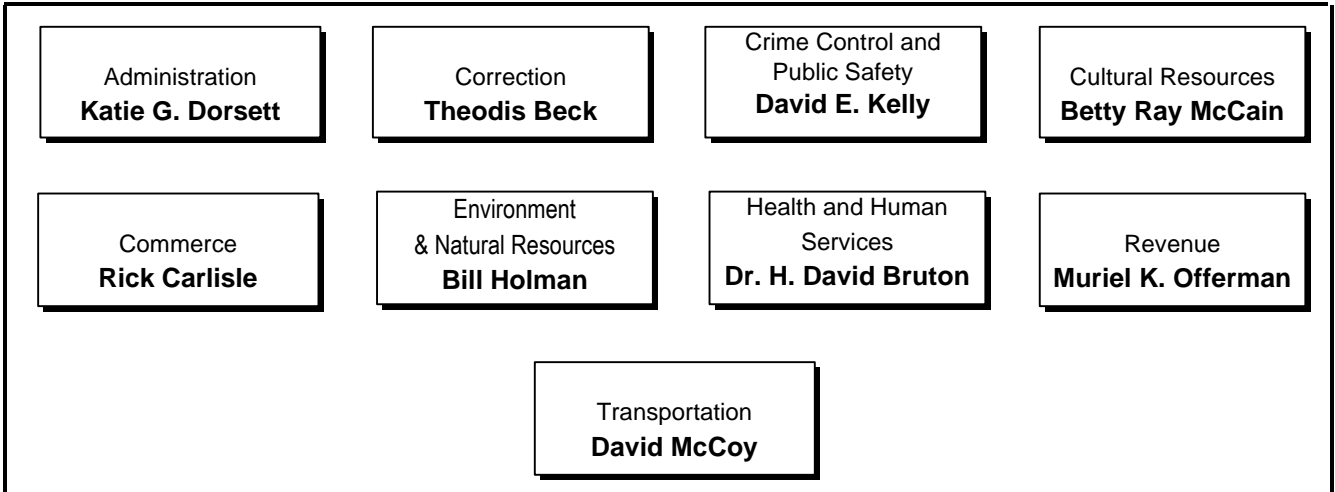
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



Cabinet Secretaries — Appointed by the Governor



Appointed by Governor, confirmed by Legislature

Office of the
 State Controller
Edward Renfrow
State Controller

Appointed by State Board of Community Colleges

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

Appointed by University Board of Governors

H. Martin Lancaster
President

Appointed by University Board of Governors

Molly C. Broad
President

LEGISLATIVE BRANCH

JUDICIAL BRANCH

General Assembly

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

Chief Justice
Henry E. Frye

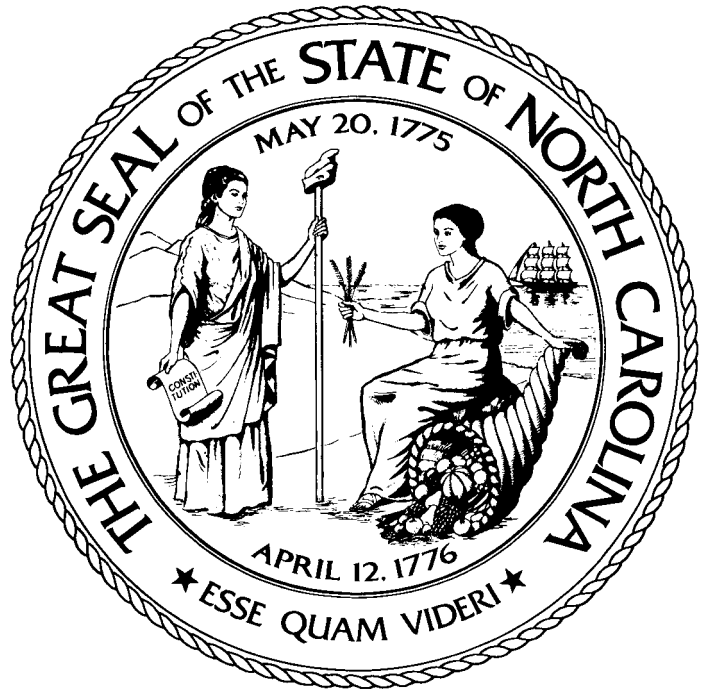
Associate Justices
Franklin E. Freeman, Jr.
I. Beverly Lake, Jr.
Robert F. Orr
Mark D. Martin
Sarah Parker
George L. Wainwright, Jr.

Administrative
Office of the Courts
Judge Thomas W. Ross
Director

Component Units

<div style="border: 1px solid black; padding: 5px;">University of North Carolina System</div>	<div style="border: 1px solid black; padding: 5px;">Community Colleges</div>	<div style="border: 1px solid black; padding: 5px;">Proprietary Funds</div>
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FINANCIAL SECTION



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of North Carolina as of and for the year ended June 30, 1999. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the 401-K Supplemental Retirement Income Plan, which represent 3 percent and 6 percent, respectively, of the assets and revenues of the pension trust funds; the financial statements of the North Carolina Housing Finance Agency, which represent 45 percent and 35 percent, respectively, of the assets and revenues of the proprietary component units; nor the financial statements of the State Education Assistance Authority, which represent 42 percent and 28 percent, respectively, of the assets and revenues of the proprietary component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the 401-K Supplemental Retirement Income Plan were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of North Carolina as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

An Equal Opportunity/Affirmative Action Employer




As discussed in Note 15 to the financial statements, the State of North Carolina changed its method of reserving fund balance during the year ended June 30, 1999.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 3, 1999 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. This report will be published at a later date in the State of North Carolina's *Single Audit Report*.

The required supplementary information on year 2000 issues listed in the table of contents is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because we could not evaluate the information using the criteria in Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, as amended. In addition, we do not provide assurance that the State is or will become year 2000 compliant, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business are or will become year 2000 compliant.

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

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


Ralph Campbell, Jr.
State Auditor

December 3, 1999

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*GENERAL
PURPOSE
FINANCIAL
STATEMENTS*

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

June 30, 1999

(Dollars in Thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS					
Cash and cash equivalents (Note 4).....	\$ 2,279,060	\$ 2,459,024	\$ 294,856	\$ 40,152	\$ 326,435
Investments (Note 4).....	2,547,522	900,550	—	43,475	573,580
Deposit with Federal government (Note 4).....	—	—	—	—	—
Receivables, net:					
Taxes receivable.....	594,212	103,499	—	—	—
Accounts receivable.....	95,228	24,900	15	1,254	25,505
Intergovernmental receivables.....	517,803	77,601	1,509	—	651
Interest receivable.....	20,856	10,122	—	151	1,452
Premiums receivable.....	—	—	—	803	139
Contributions receivable.....	14,413	—	—	—	5,145
Other receivables.....	—	8,092	—	—	—
Due from other funds (Note 8).....	16,931	90,302	2,400	—	26,946
Due from component units (Note 8).....	6,780	—	—	—	1,438
Due from primary government (Note 8).....	—	—	—	—	—
Advances to component units (Note 8).....	61,000	—	—	—	—
Notes receivable.....	497	111,095	—	—	—
Inventories.....	48,105	89,274	—	358	12,631
Food stamps.....	13,647	—	—	—	—
Prepaid items.....	—	386	—	1,290	882
Fixed assets (Note 5).....	—	—	—	22,063	181,509
Goodwill.....	—	—	—	—	—
Sureties.....	—	49,618	—	—	—
Amount available in other funds.....	—	—	—	—	—
Amount to be provided for retirement of general long-term obligations.....	—	—	—	—	—
Total Assets and Other Debits.....	<u>\$ 6,216,054</u>	<u>\$ 3,924,463</u>	<u>\$ 298,780</u>	<u>\$ 109,546</u>	<u>\$1,156,313</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 438,480	\$ 306,626	\$ 15,078	\$ 777	\$ 15,354
Tax refunds payable.....	802,768	—	—	—	—
Obligations under securities lending.....	2,485,454	876,961	—	19,919	197,313
Refunds and other payables.....	—	—	—	—	—
Tax judgements payable (Note 7).....	399,000	—	—	—	—
Due to other funds (Note 8).....	35,132	88,364	77	9	6,627
Due to component units (Note 8).....	12,391	30,142	—	—	184
Due to primary government (Note 8).....	—	—	—	—	—
Advance from primary government (Note 8).....	—	—	—	—	—
Obligations under reverse repurchase agreements.....	—	—	—	—	—
Contracts payable.....	—	—	—	—	—
Notes payable (Note 7).....	—	—	—	—	—
Claims and benefits payable.....	506,458	48	—	13,927	355,164
Capital leases payable (Note 6).....	—	—	—	—	—
Bonds payable (Note 7).....	—	—	—	—	—
Interest payable.....	287	—	—	—	—
Deposits payable.....	9	117,449	6,198	—	70
Distributions payable.....	—	—	—	—	—
Accrued vacation leave.....	—	—	—	278	2,870
Deferred revenue.....	391,945	22,714	—	3,267	3,355
Total Liabilities.....	<u>5,071,924</u>	<u>1,442,304</u>	<u>21,353</u>	<u>38,177</u>	<u>580,937</u>
Fund Equity and Other Credits:					
Contributed capital.....	—	—	—	41,144	59,754
Retained earnings.....	—	—	—	30,225	515,622
Investment in fixed assets.....	—	—	—	—	—
Fund balances:					
Reserved/restricted (Note 15).....	1,084,077	893,364	82,076	—	—
Unreserved/unrestricted (Note 15).....	60,053	1,588,795	195,351	—	—
Total Fund Equity and Other Credits.....	<u>1,144,130</u>	<u>2,482,159</u>	<u>277,427</u>	<u>71,369</u>	<u>575,376</u>
Total Liabilities, Fund Equity and Other Credits.....	<u>\$ 6,216,054</u>	<u>\$ 3,924,463</u>	<u>\$ 298,780</u>	<u>\$ 109,546</u>	<u>\$1,156,313</u>

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

Exhibit A-1

Fiduciary Fund Types	Account Groups		TOTAL PRIMARY GOVERNMENT (Memorandum only)	Component Units		TOTAL REPORTING ENTITY (Memorandum only)
	General Fixed Assets	General Long-Term Obligations		Proprietary	College and University	
\$ 1,367,677	\$ —	\$ —	\$ 6,767,204	\$ 236,201	\$ 1,544,845	\$ 8,548,250
60,920,382	—	—	64,985,509	655,899	2,616,392	68,257,800
1,283,540	—	—	1,283,540	—	—	1,283,540
229,250	—	—	926,961	—	—	926,961
17,924	—	—	164,826	26,976	232,002	423,804
1,562	—	—	599,126	11,199	105,398	715,723
14,877	—	—	47,458	22,491	10,048	79,997
—	—	—	942	—	—	942
129,810	—	—	149,368	—	—	149,368
—	—	—	8,092	—	—	8,092
7,515	—	—	144,094	—	61,429	205,523
710	—	—	8,928	—	1,022	9,950
—	—	—	—	14,531	42,717	57,248
25,000	—	—	86,000	—	—	86,000
351,624	—	—	463,216	1,488,015	96,077	2,047,308
1,546	—	—	151,914	751	54,534	207,199
—	—	—	13,647	—	—	13,647
—	—	—	2,558	6,582	9,037	18,177
—	3,383,063	—	3,586,635	176,728	6,247,686	10,011,049
—	—	—	—	460	—	460
499,813	—	—	549,431	—	—	549,431
—	—	145	145	—	—	145
—	—	3,095,912	3,095,912	—	—	3,095,912
<u>\$ 64,851,230</u>	<u>\$ 3,383,063</u>	<u>\$ 3,096,057</u>	<u>\$ 83,035,506</u>	<u>\$ 2,639,833</u>	<u>\$ 11,021,187</u>	<u>\$ 96,696,526</u>
\$ 595,331	\$ —	\$ —	\$ 1,371,646	\$ 25,231	\$ 194,944	\$ 1,591,821
—	—	—	802,768	—	—	802,768
3,459,281	—	—	7,038,928	123,605	587,611	7,750,144
2,021	—	—	2,021	—	—	2,021
—	—	440,000	839,000	—	—	839,000
13,885	—	—	144,094	—	61,429	205,523
14,531	—	—	57,248	—	1,022	58,270
—	—	—	—	8,886	4,547	13,433
—	—	—	—	86,000	—	86,000
—	—	—	—	—	86,891	86,891
—	—	—	—	7,010	—	7,010
—	—	3,270	3,270	28,314	20,163	51,747
87,510	—	6,932	970,039	10,938	37,426	1,018,403
—	—	904	904	2,224	997	4,125
—	—	2,451,973	2,451,973	1,535,484	897,654	4,885,111
—	—	—	287	18,035	11,882	30,204
740,766	—	—	864,492	—	388,454	1,252,946
3,550	—	—	3,550	—	—	3,550
—	—	192,978	196,126	1,579	136,580	334,285
9,748	—	—	431,029	10,929	32,526	474,484
<u>4,926,623</u>	<u>—</u>	<u>3,096,057</u>	<u>15,177,375</u>	<u>1,858,235</u>	<u>2,462,126</u>	<u>19,497,736</u>
—	—	—	100,898	168,642	—	269,540
—	—	—	545,847	612,956	—	1,158,803
—	3,383,063	—	3,383,063	—	5,345,426	8,728,489
58,244,647	—	—	60,304,164	—	1,777,774	62,081,938
1,679,960	—	—	3,524,159	—	1,435,861	4,960,020
<u>59,924,607</u>	<u>3,383,063</u>	<u>—</u>	<u>67,858,131</u>	<u>781,598</u>	<u>8,559,061</u>	<u>77,198,790</u>
<u>\$ 64,851,230</u>	<u>\$ 3,383,063</u>	<u>\$ 3,096,057</u>	<u>\$ 83,035,506</u>	<u>\$ 2,639,833</u>	<u>\$ 11,021,187</u>	<u>\$ 96,696,526</u>

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

For the Fiscal Year Ended June 30, 1999

Exhibit A-2

(Dollars in Thousands)

	Governmental Fund Types			Fiduciary Fund Type	TOTALS (Memorandum only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
Taxes.....	\$ 12,168,991	\$ 1,648,586	\$ —	\$ 397,094	\$ 14,214,671
Federal funds.....	5,361,839	929,097	6,260	9,978	6,307,174
Local funds.....	436,609	31,930	1,000	99	469,638
Investment earnings.....	365,685	162,957	386	187,830	716,858
Interest earnings on loans.....	—	6,665	—	—	6,665
Sales and services.....	70,386	21,531	320	32,400	124,637
Sale, rental, and lease of property.....	6,559	20,283	71	529	27,442
Fees, licenses, and fines.....	277,168	618,717	7	6,856	902,748
Contributions, gifts, and grants.....	17,612	29,956	24,219	29,620	101,407
Funds escheated.....	—	—	—	20,061	20,061
Miscellaneous.....	152,061	16,208	3,834	499	172,602
Total revenues.....	<u>18,856,910</u>	<u>3,485,930</u>	<u>36,097</u>	<u>684,966</u>	<u>23,063,903</u>
Expenditures:					
Current:					
General government.....	971,304	68,551	—	6,966	1,046,821
Education.....	5,492,045	761,793	—	17,900	6,271,738
Health and human services.....	7,614,923	50,538	—	2,436	7,667,897
Economic development.....	133,518	236,606	—	—	370,124
Environment and natural resources.....	201,194	152,831	—	10,686	364,711
Public safety, corrections, and regulation.....	1,488,715	181,988	—	29,922	1,700,625
Transportation.....	—	2,508,886	—	—	2,508,886
Agriculture.....	72,353	209	—	4,903	77,465
Claims and benefits.....	—	—	—	449,303	449,303
Tax judgements.....	399,000	—	—	—	399,000
Capital outlay.....	—	—	182,793	—	182,793
Debt service:					
Principal retirement.....	107,277	16,675	—	—	123,952
Interest.....	91,995	11,683	—	—	103,678
Total expenditures.....	<u>16,572,324</u>	<u>3,989,760</u>	<u>182,793</u>	<u>522,116</u>	<u>21,266,993</u>
Excess revenues over (under) expenditures.....	<u>2,284,586</u>	<u>(503,830)</u>	<u>(146,696)</u>	<u>162,850</u>	<u>1,796,910</u>
Other Financing Sources (Uses):					
Operating transfers in.....	295,074	800,176	178,490	18,899	1,292,639
Operating transfers from component units.....	18,308	951	1,125	—	20,384
Operating transfers out.....	(511,605)	(790,495)	(5,896)	(16,097)	(1,324,093)
Operating transfers to component units.....	(2,565,429)	(17,171)	—	(14,577)	(2,597,177)
Proceeds from capital leases.....	841	—	—	—	841
Proceeds of refunding debt.....	26,182	—	—	—	26,182
Payment to refunded debt escrow agent.....	(26,182)	—	—	—	(26,182)
Proceeds from bond sale.....	—	450,055	—	—	450,055
Total other financing sources (uses).....	<u>(2,762,811)</u>	<u>443,516</u>	<u>173,719</u>	<u>(11,775)</u>	<u>(2,157,351)</u>
Excess revenues and other sources over (under) expenditures and other uses.....	<u>(478,225)</u>	<u>(60,314)</u>	<u>27,023</u>	<u>151,075</u>	<u>(360,441)</u>
Fund balances — July 1 (Note 16).....	1,664,787	2,484,437	258,584	2,283,179	6,690,987
Restatements (Note 16).....	(953)	52,691	3,506	15,771	71,015
Residual equity transfers in (Note 17).....	3,645	441	—	—	4,086
Residual equity transfers out (Note 17).....	(44,231)	(21)	(11,686)	—	(55,938)
Increase (decrease) in reserve for related assets.....	<u>(893)</u>	<u>4,925</u>	<u>—</u>	<u>113</u>	<u>4,145</u>
Fund balances — June 30.....	<u>\$ 1,144,130</u>	<u>\$ 2,482,159</u>	<u>\$ 277,427</u>	<u>\$ 2,450,138</u>	<u>\$ 6,353,854</u>

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

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

For the Fiscal Year Ended June 30, 1999

Exhibit A-3

(Dollars in Thousands)

	General Fund			Special Revenue Funds		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:						
Taxes:						
Individual income.....	\$ 6,358,400	\$ 6,606,500	\$ 248,100	\$ —	\$ —	\$ —
Corporate income.....	743,100	848,510	105,410	—	—	—
Sales and use.....	3,350,000	3,376,207	26,207	—	—	—
Franchise.....	434,800	409,558	(25,242)	—	—	—
Insurance.....	273,600	291,231	17,631	—	—	—
Beverage.....	158,000	158,027	27	—	—	—
Intangibles.....	—	31	31	—	—	—
Other.....	271,600	275,201	3,601	—	—	—
Non-Tax:						
Fees, licenses and fines.....	116,300	120,961	4,661	—	—	—
Investment income.....	261,500	249,282	(12,218)	—	—	—
Disproportionate share receipts.....	85,000	85,000	—	—	—	—
Other.....	133,100	129,814	(3,286)	—	—	—
Transfers in.....	183,400	183,400	—	—	—	—
Departmental:						
Federal funds.....	5,700,292	4,900,109	(800,183)	282,248	210,975	(71,273)
Local funds.....	732,905	636,265	(96,640)	8,561	8,335	(226)
Inter-agency grants and allocations.....	43,630	9,544	(34,086)	12,307	9,416	(2,891)
Intra-governmental transactions.....	2,014,543	1,897,439	(117,104)	299,234	252,127	(47,107)
Sales and services.....	65,234	67,323	2,089	5,950	5,958	8
Sale, rental and lease of property.....	5,945	5,820	(125)	3,772	4,110	338
Fees, licenses and fines.....	108,663	110,623	1,960	98,730	79,420	(19,310)
Contributions, gifts and grants.....	34,142	30,326	(3,816)	466	336	(130)
Miscellaneous.....	41,471	41,764	293	7,140	5,805	(1,335)
Universities.....	486,544	473,000	(13,544)	—	—	—
Total Revenues.....	21,602,169	20,905,935	(696,234)	718,408	576,482	(141,926)
Expenditures:						
Current:						
General government.....	944,023	916,134	27,889	74,586	67,883	6,703
Education.....	6,933,574	6,742,929	190,645	—	—	—
Health and human services.....	9,404,500	8,682,885	721,615	602	589	13
Environment and natural resources.....	322,830	290,984	31,846	136,122	123,407	12,715
Economic development.....	182,579	176,255	6,324	349,671	242,629	107,042
Public safety, corrections, and regulation... Transportation.....	1,801,562	1,590,220	211,342	200,554	165,681	34,873
Agriculture.....	11,246	11,246	—	—	—	—
Capital outlay.....	82,131	76,456	5,675	—	—	—
Debt service.....	337,200	337,200	—	—	—	—
Universities.....	220,382	220,382	—	—	—	—
Total Expenditures.....	22,344,992	21,134,254	1,210,738	761,535	600,189	161,346
Excess revenues over (under) expenditures.....	(742,823)	(228,319)	514,504	<u>(\$43,127)</u>	<u>(23,707)</u>	<u>\$ 19,420</u>
Transfers from reserves (Note 2D).....	227,845	227,845	—	—	—	—
Transfers to reserves (Note 2D).....	—	(218,054)	(218,054)	—	—	—
Unreserved fund balances (budgetary basis) at July 1, 1998.....	515,230	515,230	—	—	258,441	—
Restatements (Note 2B).....	—	—	—	—	<u>(126,517)</u>	—
Unreserved fund balances (budgetary basis) at June 30, 1999 (Note 2C).....	<u>\$ 252</u>	<u>\$ 296,702</u>	<u>\$ 296,450</u>	—	<u>\$ 108,217</u>	—

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

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Types	TOTAL PRIMARY GOVERNMENT
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum only)
Operating Revenues:				
Sales and services.....	\$ 1,235	\$ 285,480	\$ 995	\$ 287,710
Federal funds.....	—	—	24,505	24,505
Investment earnings.....	2,509	36,572	10,314	49,395
Interest earnings on loans.....	—	—	8,852	8,852
Rental and lease earnings.....	4,086	371	—	4,457
Fees, licenses and fines.....	7,666	1,011	1,611	10,288
Contributions, gifts and grants.....	—	70,229	68	70,297
Insurance premiums.....	6,887	605,326	—	612,213
Miscellaneous.....	41	1,460	115	1,616
Total operating revenues.....	<u>22,424</u>	<u>1,000,449</u>	<u>46,460</u>	<u>1,069,333</u>
Operating Expenses:				
Personal services.....	5,664	54,288	2,215	62,167
Supplies and materials.....	534	12,002	16	12,552
Services.....	7,448	94,653	249	102,350
Interest.....	775	11,743	3,202	15,720
Cost of goods sold.....	463	36,914	—	37,377
Depreciation/amortization.....	1,483	32,142	—	33,625
Grants to local governments.....	—	—	809	809
Claims and benefits.....	30,390	793,166	—	823,556
Insurance and bonding.....	2,222	10,060	—	12,282
Other.....	1,144	35,802	885	37,831
Total operating expenses.....	<u>50,123</u>	<u>1,080,770</u>	<u>7,376</u>	<u>1,138,269</u>
Operating income (loss).....	(27,699)	(80,321)	39,084	(68,936)
Net Nonoperating Revenues (Expenses).....				
	<u>714</u>	<u>550</u>	<u>—</u>	<u>1,264</u>
Income (loss) before operating transfers.....	<u>(26,985)</u>	<u>(79,771)</u>	<u>39,084</u>	<u>(67,672)</u>
Operating Transfers:				
Transfers in.....	27,907	3,930	7,432	39,269
Transfers from component units.....	—	—	—	—
Transfers from primary government.....	—	—	—	—
Transfers out.....	(1,281)	(4,255)	(2,279)	(7,815)
Transfers to primary government.....	—	—	—	—
Total operating transfers in (out).....	<u>26,626</u>	<u>(325)</u>	<u>5,153</u>	<u>31,454</u>
Net income (loss).....	(359)	(80,096)	44,237	(36,218)
Excess of revenues over (under) expenditures from governmental operations.....				
	—	—	—	—
Fund equity — July 1 (Note 16).....	68,712	654,433	412,051	1,135,196
Restatements (Note 16).....	(1,763)	135	(27)	(1,655)
Increase (decrease) in contributed capital.....	4,779	904	—	5,683
Fund equity — June 30.....	<u>\$ 71,369</u>	<u>\$ 575,376</u>	<u>\$ 456,261</u>	<u>\$ 1,103,006</u>

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

Exhibit A-4

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
\$ 67,685	\$ 355,395
—	24,505
34,478	83,873
109,358	118,210
4,683	9,140
2	10,290
—	70,297
—	612,213
8,898	10,514
<u>225,104</u>	<u>1,294,437</u>
65,231	127,398
2,169	14,721
24,603	126,953
94,949	110,669
—	37,377
9,272	42,897
—	809
245	823,801
1,247	13,529
18,134	55,965
<u>215,850</u>	<u>1,354,119</u>
9,254	(59,682)
<u>(84,270)</u>	<u>(83,006)</u>
<u>(75,016)</u>	<u>(142,688)</u>
—	39,269
12,002	12,002
137,787	137,787
—	(7,815)
<u>(52)</u>	<u>(52)</u>
<u>149,737</u>	<u>181,191</u>
74,721	38,503
(148)	(148)
656,643	1,791,839
6,911	5,256
43,471	49,154
<u>\$ 781,598</u>	<u>\$ 1,884,604</u>

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	<i>Proprietary Fund Types</i>		<i>Fiduciary Fund Types</i>	<i>TOTAL PRIMARY GOVERNMENT</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Nonexpendable Trust Funds</i>	<i>(Memorandum only)</i>
Cash Provided From (Used For) Operations:				
Operating income (loss).....	\$ (27,699)	\$ (80,321)	\$ 39,084	\$ (68,936)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation/amortization.....	1,483	32,142	—	33,625
Investment earnings.....	(2,509)	(36,572)	(10,314)	(49,395)
Securities lending fees.....	775	11,743	3,202	15,720
Construction projects expensed.....	—	—	—	—
Mortgage/loan/note principal repayments.....	—	—	18,695	18,695
Loan sales.....	—	—	—	—
Mortgages/loans/notes issued.....	—	—	(25,053)	(25,053)
Mortgage/loan/note cancellation and writeoffs.....	—	—	—	—
Allowances and uncollectible accounts.....	—	—	—	—
Restatements and adjustments to cash.....	(109)	138	(1)	28
Development stage expense.....	—	—	—	—
Nonoperating miscellaneous income/expense.....	(304)	1,632	—	1,328
Interest expense.....	—	—	—	—
(Increases) decreases in assets:				
Receivables.....	377	(5,741)	(256)	(5,620)
Due from other funds.....	—	(3,390)	—	(3,390)
Due from component units.....	—	(172)	—	(172)
Due from primary government.....	—	—	—	—
Inventories.....	28	1,154	—	1,182
Prepaid items.....	(3)	(400)	—	(403)
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities.....	510	725	54	1,289
Due to other funds.....	—	3,727	2	3,729
Due to component units.....	—	184	—	184
Due to primary government.....	—	—	—	—
Claims and benefits payable.....	4,903	8,542	—	13,445
Contracts payable.....	—	—	—	—
Deposits payable.....	—	7	—	7
Accrued vacation leave.....	(22)	(6)	—	(28)
Deferred revenue.....	949	(189)	—	760
Total cash provided from (used for) operations.....	<u>(21,621)</u>	<u>(66,797)</u>	<u>25,413</u>	<u>(63,005)</u>
Cash Provided From (Used For) Noncapital Financing Activities:				
Proceeds from sale of bonds/notes.....	—	—	—	—
Repayment of bond/note principal.....	—	—	—	—
Interest payments on bonds and notes.....	—	—	—	—
Bond issuance cost.....	—	—	—	—
Grants.....	—	—	—	—
Grants, aid and subsidies.....	—	—	—	—
Operating transfers in.....	27,907	3,870	7,432	39,209
Operating transfers from component units.....	—	—	—	—
Operating transfers from primary government.....	—	—	—	—
Operating transfers out.....	(1,281)	(4,255)	(2,279)	(7,815)
Operating transfers to primary government.....	—	—	—	—
Advance from primary government.....	—	—	—	—
Nonoperating cash donations.....	930	—	—	930
Increase in contributed capital.....	4,779	—	—	4,779
Decrease in contributed capital.....	—	—	—	—
Long term contract payments.....	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	<u>32,335</u>	<u>(385)</u>	<u>5,153</u>	<u>37,103</u>

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

Exhibit A-5

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
\$ 9,254	\$ (59,682)
9,272	42,897
(34,478)	(83,873)
6,069	21,789
3	3
293,561	312,256
2,078	2,078
(484,185)	(509,238)
6,675	6,675
2,268	2,268
(7,685)	(7,657)
(690)	(690)
921	2,249
55,754	55,754
(13,676)	(19,296)
—	(3,390)
—	(172)
(1,037)	(1,037)
48	1,230
(1,583)	(1,986)
10,049	11,338
—	3,729
(113)	71
(2,524)	(2,524)
—	13,445
(166)	(166)
—	7
78	50
1,507	2,267
<u>(148,600)</u>	<u>(211,605)</u>
457,765	457,765
(249,342)	(249,342)
(60,892)	(60,892)
(4,921)	(4,921)
3,590	3,590
(93,891)	(93,891)
—	39,209
12,002	12,002
137,752	137,752
—	(7,815)
(52)	(52)
(33,054)	(33,054)
3,207	4,137
33,599	38,378
(3,893)	(3,893)
219	219
<u>202,089</u>	<u>239,192</u>

Continued

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	<i>Proprietary Fund Types</i>		<i>Fiduciary Fund Types</i>	<i>TOTAL PRIMARY GOVERNMENT</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Nonexpendable Trust Funds</i>	<i>(Memorandum only)</i>
Cash Provided From (Used For)				
Capital Financing Activities:				
Acquisition of fixed assets.....	(300)	(50,128)	—	(50,428)
Proceeds from the sale of fixed assets.....	—	2,978	—	2,978
Proceeds from sale of bonds/notes.....	—	—	—	—
Repayment of bond/note principal.....	(130)	—	—	(130)
Interest payments on bonds, notes and capital leases.....	(4)	—	—	(4)
Capital grants.....	—	—	—	—
Principal payment on capital leases.....	—	—	—	—
Transfer from primary government.....	—	—	—	—
Dredging costs.....	—	—	—	—
Total cash provided from (used for).....				
capital financing activities.....	<u>(434)</u>	<u>(47,150)</u>	<u>—</u>	<u>(47,584)</u>
Cash Provided From (Used For)				
Investment Activities:				
Proceeds from the sale/maturities of non-State				
Treasurer investments.....	754	200	386	1,340
Redemptions from the State Treasurer				
Long-Term Investment Portfolio.....	—	1,700	2,120	3,820
Purchase of non-State Treasurer investments.....	(1,585)	—	(375)	(1,960)
Purchase into State Treasurer				
Long-Term Investment Portfolio.....	—	(3,000)	(1,391)	(4,391)
Investment earnings.....	1,580	21,426	6,452	29,458
Total cash provided from (used for)				
investment activities.....	<u>749</u>	<u>20,326</u>	<u>7,192</u>	<u>28,267</u>
Net increase (decrease) in cash				
and cash equivalents.....	11,029	(94,006)	37,758	(45,219)
Deficit from governmental operations.....	—	—	—	—
Cash and cash equivalents at July 1.....	29,123	420,441	107,733	557,297
Cash and cash equivalents at June 30.....	<u>\$ 40,152</u>	<u>\$ 326,435</u>	<u>\$ 145,491</u>	<u>\$ 512,078</u>
Noncash Investing, Capital, and Financing Activities:				
Noncash distributions (loss) from the State Treasurer				
Long-Term Investment Portfolio.....	187	\$ 3,914	\$ (12)	\$ 4,089
Increase in contributed capital.....	—	1,046	—	1,046
Decrease in contributed capital.....	—	(142)	—	(142)
Assets acquired through the assumption of a				
liability.....	19,919	197,313	82,271	299,503
Interest expense on advance from primary				
government.....	—	—	—	—
Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:				
Expendable Trust Funds.....	\$ 268,477			
Nonexpendable Trust Funds.....	145,491			
Pension Trust Funds.....	252,143			
Investment Trust Fund.....	32,240			
Agency Funds.....	669,326			
Total.....	<u>\$ 1,367,677</u>			

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

Exhibit A-5

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
(25,332)	(75,760)
49	3,027
533	533
(1,574)	(1,704)
(545)	(549)
18,030	18,030
(1,115)	(1,115)
35	35
(391)	(391)
<u>(10,310)</u>	<u>(57,894)</u>
748,452	749,792
—	3,820
(797,494)	(799,454)
—	(4,391)
<u>31,953</u>	<u>61,411</u>
<u>(17,089)</u>	<u>11,178</u>
26,090	(19,129)
148	148
209,963	767,260
<u>\$ 236,201</u>	<u>\$ 748,279</u>

\$ 7,720	\$ 11,809
—	1,046
—	(142)
15,612	315,115
3,088	3,088

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

June 30, 1999

Exhibit A-6

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	401(k) Supplemental Retirement Income Plan	Totals
ASSETS								
Cash and cash equivalents....	\$ 74,778	\$ 1,049	\$ 209	\$ 1,402	\$ 196	\$ 8,188	\$ 166,321	\$ 252,143
Investments (Note 9, 10):								
Bank investment contracts.....	—	—	—	—	—	—	322,715	322,715
Mutual funds.....	—	—	—	—	—	—	1,281,367	1,281,367
State Treasurer investment pool.....	45,075,043	334,264	26,090	250,169	46,356	11,283,396	—	57,015,318
Receivables:								
Accounts receivable.....	274	—	—	—	—	319	—	593
Interest receivable.....	609	8	2	1	1	358	387	1,366
Contributions receivable....	92,350	827	94	—	—	25,782	10,603	129,656
Notes receivable.....	—	—	—	—	—	—	89,125	89,125
Total Assets.....	<u>45,243,054</u>	<u>336,148</u>	<u>26,395</u>	<u>251,572</u>	<u>46,553</u>	<u>11,318,043</u>	<u>1,870,518</u>	<u>59,092,283</u>
LIABILITIES								
Obligations under securities lending.....	2,190,492	16,622	1,461	12,887	2,433	550,563	—	2,774,458
Refunds and other payables	—	—	—	—	—	—	2,021	2,021
Due to other funds (Note 8)...	—	—	—	1	—	—	—	1
Benefits payable.....	43,503	—	—	—	—	97	—	43,600
Total Liabilities.....	<u>2,233,995</u>	<u>16,622</u>	<u>1,461</u>	<u>12,888</u>	<u>2,433</u>	<u>550,660</u>	<u>2,021</u>	<u>2,820,080</u>
FUND BALANCE								
Reserved for employees' pension benefits (Note 15).	<u>\$ 43,009,059</u>	<u>\$ 319,526</u>	<u>\$ 24,934</u>	<u>\$ 238,684</u>	<u>\$ 44,120</u>	<u>\$ 10,767,383</u>	<u>\$ 1,868,497</u>	<u>\$ 56,272,203</u>

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

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

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

For the Fiscal Year Ended June 30, 1999

Exhibit A-7

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	401(k) Supplemental Retirement Income Plan	Totals
Additions:								
Contributions:								
Employer.....	\$ 637,825	\$ 7,304	\$ 807	\$ —	\$ —	\$ 158,157	\$ 67,550	\$ 871,643
Plan members.....	527,618	2,633	272	2,923	—	191,068	121,130	845,644
Other contributions.....	—	—	—	12,105	2,533	—	—	14,638
Total contributions.....	<u>1,165,443</u>	<u>9,937</u>	<u>1,079</u>	<u>15,028</u>	<u>2,533</u>	<u>349,225</u>	<u>188,680</u>	<u>1,731,925</u>
Investment Income:								
Investment earnings.....	4,406,587	32,577	2,455	24,148	4,322	1,093,235	279,105	5,842,429
Less investment expenses.....	(154,035)	(1,164)	(96)	(850)	(163)	(39,801)	—	(196,109)
Net investment income.....	<u>4,252,552</u>	<u>31,413</u>	<u>2,359</u>	<u>23,298</u>	<u>4,159</u>	<u>1,053,434</u>	<u>279,105</u>	<u>5,646,320</u>
Fees, licenses and fines.....	—	—	—	—	—	4,542	1,757	6,299
Interest earnings on loans.....	—	—	—	—	—	—	7,396	7,396
Miscellaneous additions.....	1,388	—	—	3	—	23	—	1,414
Total additions.....	<u>5,419,383</u>	<u>41,350</u>	<u>3,438</u>	<u>38,329</u>	<u>6,692</u>	<u>1,407,224</u>	<u>476,938</u>	<u>7,393,354</u>
Deductions:								
Administrative expense.....	5,818	65	7	479	25	2,058	5,494	13,946
Benefits.....	1,382,933	12,431	991	13,084	1,775	296,775	72,717	1,780,706
Refund of contributions.....	75,734	21	19	349	—	54,825	—	130,948
Total deductions.....	<u>1,464,485</u>	<u>12,517</u>	<u>1,017</u>	<u>13,912</u>	<u>1,800</u>	<u>353,658</u>	<u>78,211</u>	<u>1,925,600</u>
Net increase (decrease)	3,954,898	28,833	2,421	24,417	4,892	1,053,566	398,727	5,467,754
Fund balance reserved for employees' pension benefits								
Beginning of the year (Note 16)	39,054,161	290,693	22,513	214,267	39,228	9,713,817	1,469,770	50,804,449
End of year.....	<u>\$ 43,009,059</u>	<u>\$ 319,526</u>	<u>\$ 24,934</u>	<u>\$ 238,684</u>	<u>\$ 44,120</u>	<u>\$ 10,767,383</u>	<u>\$ 1,868,497</u>	<u>\$56,272,203</u>

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

**INVESTMENT TRUST FUND
STATEMENT OF NET ASSETS**

June 30, 1999

Exhibit A-8

(Dollars in Thousands)

	<i>Investment Trust Fund</i>
ASSETS	
Cash and cash equivalents.....	\$ 32,240
Investments.....	1,127,040
Receivables:	
Interest receivable.....	10,278
Total Assets.....	<u>1,169,558</u>
LIABILITIES	
Obligations under securities lending.....	420,003
Distributions payable.....	3,550
Total Liabilities.....	<u>423,553</u>
NET ASSETS	
Held in trust for pool participants.....	<u>\$ 746,005</u>

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

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

For the Fiscal Year Ended June 30, 1999
(Dollars in Thousands)

Exhibit A-9

	<i>Investment Trust Fund</i>
Net increase in net assets resulting from operations:	
Revenues	
Investment income.....	\$ 55,377
Expenses	
Investment expenses.....	<u>17,019</u>
Net increase in net assets resulting from operations.....	38,358
Distributions to participants:	
Distributions paid and payable.....	(38,358)
Share transactions:	
Reinvestment of distributions.....	36,281
Net share purchases/(redemptions).....	<u>367,310</u>
Total increase in net assets.....	403,591
Net assets:	
Beginning of the year (Note 16).....	306,610
Restatement.....	<u>35,804</u>
End of the year.....	<u>\$ 746,005</u>

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

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

For the Fiscal Year Ended June 30, 1999

Exhibit A-10

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

Tuition and fees.....	\$ 420,479
Federal appropriations.....	23,397
County appropriations.....	118,719
Federal contracts and grants.....	661,166
State contracts and grants.....	97,362
Local contracts and grants.....	24,431
Private gifts, contracts and grants.....	307,478
Endowment income.....	24,409
Sales and services.....	874,424
Investment earnings.....	135,764
Expended for plant facilities.....	454,241
Retirement of indebtedness.....	33,896
Proceeds of refunding debt.....	9,032
Income from hospital operations.....	436,671
Other revenues and additions.....	59,196
Total Revenues and Other Additions.....	<u>3,680,665</u>

Expenditures and Other Deductions:

Educational and general.....	3,662,845
Auxiliary enterprises.....	506,336
Internal service.....	33,952
Independent operations.....	13,047
Professional clinical services.....	207,222
Indirect cost recovered.....	94,259
Refunded to grantors.....	1,389
Administrative and collection costs, loan cancellation and bad debts.....	2,998
Expended for plant facilities.....	364,123
Retirement of indebtedness.....	33,816
Payment to escrow agent.....	8,776
Interest on indebtedness.....	37,693
Disposal of plant facilities.....	87,053
Loss on refunding of debt.....	543
Hospital operations.....	436,549
Other expenditures and deductions.....	6,883
Total Expenditures and Other Deductions.....	<u>5,497,484</u>

Transfers-Additions (Deductions):

Operating transfers from primary government.....	2,452,457
Operating transfers to primary government.....	(20,332)
Operating transfers to component units.....	(12,002)
Net transfers.....	<u>2,420,123</u>
Net increase in fund equity.....	603,304
Fund equity — July 1 (Note 16).....	7,846,547
Restatements (Note 16).....	109,301
Residual equity transfers out (Note 17).....	(91)
Fund equity — June 30.....	<u>\$ 8,559,061</u>

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

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

For the Fiscal Year Ended June 30, 1999

Exhibit A-11

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

Tuition and fees.....	\$ 419,142
Federal appropriations.....	23,397
County appropriations.....	100,410
Federal contracts and grants.....	574,409
State contracts and grants.....	88,286
Local contracts and grants.....	97,317
Private gifts, contracts and grants.....	153,988
Endowment income.....	16,373
Sales and services.....	874,396
Investment earnings.....	61,058
Other revenues.....	39,872
Total Current Revenues.....	<u>2,448,648</u>

Expenditures:

Educational and general:	
Instruction.....	1,615,176
Organized research.....	393,170
Public service.....	261,231
Academic support.....	269,915
Student services.....	134,670
Institutional support.....	393,894
Physical plant operations.....	281,003
Student financial aid.....	313,786
Total educational and general.....	<u>3,662,845</u>
Auxiliary enterprises.....	506,336
Internal service.....	33,952
Independent operations.....	13,047
Professional clinical services.....	207,222
Total Expenditures.....	<u>4,423,402</u>

Transfers and Additions (Deductions):

Excess of restricted receipts over revenues earned.....	11,971
Refund to grantors.....	(1,354)
Mandatory transfers.....	(61,877)
Non-mandatory transfers.....	(41,700)
Interinstitutional transfers.....	(2,338)
Operating transfers from primary government.....	2,186,021
Operating transfers to primary government.....	(1,549)
Operating transfers to component units.....	(12,002)
Net increase in fund equity.....	<u>\$ 102,418</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

The financial statements are presented as of and for the fiscal year ended June 30, 1999, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 1998, 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, 1998. Occupational licensing boards have financial statements with various fiscal year ending dates.

B. Financial Reporting Entity

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

The State of North Carolina, as primary government, consists of all organizations that make up its legal entity. All funds, organizations, agencies, boards, commissions, and authorities that are not legally separate are, for financial reporting purposes, part of the primary government. The

primary government has a separately elected governing body (the General Assembly) and the primary government must be both legally separate and fiscally independent. Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State. The State has applied the criteria outlined in GASB Statement No. 14, *The Financial Reporting Entity*, in determining financial accountability.

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

Blended Component Units**Comprehensive Major Medical Plan**

The Comprehensive Major Medical Plan (Plan) is a component unit that provides medical benefits to employees and retirees of the State, most of its component units, and local boards of education that are not part of the reporting entity. The Plan has corporate powers and is governed by a board whose members are appointed by either the Governor or the General Assembly. Provisions and contribution rates are approved by the General Assembly, with the State making significant contributions as an employer and through its funding of local boards of education. The Plan has been included in the financial statements using the blending method (internal service fund) because it almost exclusively benefits the primary government. Even though a substantial number of covered participants are not employees of the primary government, the Plan essentially serves only the primary government by managing the risk associated with providing health insurance to eligible employees. The other employers in the Plan do not have risk since the primary government is responsible for funding the premiums of all covered employees.

Disability Income Plan of North Carolina

The Disability Income Plan of North Carolina (Plan) is a component unit that provides disability benefits to employees of the State, most of its component units, and local boards of education that are not part of the reporting entity. The Plan has corporate powers and is governed by a fourteen-member board. Ten members are appointed by the Governor, two are appointed by the General Assembly, and two are elected State officials. Provisions and contribution rates are approved by the General Assembly, with the State making significant contributions as an employer and through its funding of local boards of education. The Plan has been included in the financial statements using the

NOTES TO THE FINANCIAL STATEMENTS

blending method (internal service fund) because it almost exclusively benefits the primary government. Even though a substantial number of covered participants are not employees of the primary government, the Plan essentially serves only the primary government by managing the risk associated with providing disability insurance to eligible employees. The other employers in the Plan do not have risk since the primary government is responsible for funding the premiums of all covered employees.

Discretely Presented Component Units

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

College and University Funds

University of North Carolina System

The Board of Governors of the consolidated University of North Carolina (UNC) system is a legally separate body, composed of thirty-two members elected by the General Assembly. The Board of Governors establishes system-wide administrative policies while budgetary decisions are exercised at the State level. Within the consolidated system there is UNC-General Administration, which is the administrative arm of the Board of Governors, the sixteen constituent universities, and UNC Hospitals. Each of the sixteen universities, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. UNC Hospitals is governed by a separate board of directors. Funding for each of the institutions of the UNC system is accomplished by State appropriations, tuition and fees, sales and services, federal grants, and private donations and grants.

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

- Appalachian State University
- East Carolina University
- Elizabeth City State University
- Fayetteville State University
- North Carolina Agricultural and Technical State University
- North Carolina Central University
- North Carolina School of the Arts
- North Carolina State University
- University of North Carolina at Asheville
- University of North Carolina at Chapel Hill
- University of North Carolina at Charlotte
- University of North Carolina at Greensboro
- University of North Carolina at Pembroke
- University of North Carolina at Wilmington
- Western Carolina University
- Winston-Salem State University
- UNC Hospitals

Community Colleges

There are currently fifty-eight community colleges located throughout the State of North Carolina. Each is a separate component unit of the reporting entity and is legally separate. The State does not appoint a voting majority of each community college board of trustees. The State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no community college is considered major in relation to the operations of all community colleges in the system. Therefore, aggregated financial information is presented in this CAFR for all community colleges. The following are the State's fifty-eight community colleges:

Alamance Comm. College	Anson Comm. College
Asheville-Buncombe Technical Comm. College	Beaufort County Comm. College
Bladen Community College	Blue Ridge Comm. College
Brunswick Comm. College	Caldwell Comm. College and Technical Institute
Cape Fear Comm. College	Carteret Comm. College
Catawba Valley Comm. College	Central Piedmont Comm. College
Central Carolina Comm. College	Cleveland Comm. College
Coastal Carolina Comm. College	College of The Albemarle
Craven Comm. College	Durham Technical Comm. College
Davidson County Comm. College	Fayetteville Technical Comm. College
Edgecombe Comm. College	Forsyth Technical Comm. College
Gaston College	Guilford Technical Comm. College
Halifax Comm. College	Haywood Comm. College
Isothermal Comm. College	James Sprunt Comm. College
Johnston Comm. College	Lenoir Comm. College
Martin Comm. College	Mayland Comm. College
McDowell Technical Comm. College	Mitchell Comm. College
Montgomery Comm. College	Nash Comm. College
Pamlico Comm. College	Piedmont Comm. College
Pitt Comm. College	Randolph Comm. College
Richmond Comm. College	Roanoke-Chowan Comm. College
Robeson Comm. College	Rockingham Comm. College
Rowan-Cabarrus Comm. College	Sampson Comm. College
Sandhills Comm. College	Southeastern Comm. College
Southwestern Comm. College	Stanly Comm. College
Surry Comm. College	Tri-County Comm. College
Vance-Granville Comm. College	Wake Technical Comm. College
Wayne Comm. College	Western Piedmont Comm. College
Wilkes Comm. College	Wilson Technical Comm. College

Proprietary Funds

North Carolina Housing Finance Agency

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

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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.

North Carolina State Ports Authority

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

North Carolina Railroad Company

The North Carolina Railroad Company is a legally separate, for-profit corporation owned by the State for the purpose of promoting trade, industry, and transportation within the State of North Carolina and advancing the economic interests of the State. The Railroad is governed by a 14 member board, all of whom are elected by shares held by the State. A financial benefit/burden relationship exists between the State and the Railroad.

North Carolina Global TransPark Authority

The North Carolina Global TransPark Authority (formerly North Carolina Air Cargo Airport Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the twenty-member governing board, nineteen are voting members. Seven of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority for years to come; therefore, a financial benefit/ burden relationship exists between the State and the Authority.

North Carolina Low Level Radioactive Waste Management Authority

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

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate nonprofit corporation created to

foster advanced programs in microelectronics and super-computing, in support of economic development and of North Carolina universities and research institutes. Of the sixteen-member governing board, eleven are voting members. Seven of the voting board 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. The State has provided significant funding to the organization since its inception; therefore, a financial benefit/burden relationship exists between the State and the organization.

North Carolina Biotechnology Center

The North Carolina Biotechnology Center is a legally separate nonprofit corporation created to further economic development through the support of biotechnology research. The Center is governed by a thirty-five-member board. Fifteen of the board members are appointed by the Governor or General Assembly and four serve as a result of their positions with the UNC system, a component unit of the State. The State has provided significant funding to the Center since its inception; therefore, a financial benefit/burden relationship exists between the State and the Center.

North Carolina Rural Economic Development Center, Inc.

The North Carolina Rural Economic Development Center is a legally separate organization established to build economic strength in the State's 85 rural counties, with a special focus on creation of economic opportunities for citizens with low to moderate incomes. The Center has a 48 member board of directors, with three appointed by the Governor, three by the Lieutenant Governor, and three by the Speaker of the House. The other members are elected by the appointed members of the board of directors. The State provides significant program and operating support to the Center creating a benefit/burden relationship.

North Carolina Agricultural Finance Authority

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

North Carolina Partnership for Children, Inc.

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

North Carolina Ports Railway Commission

The North Carolina Ports Railway Commission is a legally separate organization established to operate, maintain

NOTES TO THE FINANCIAL STATEMENTS

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

North Carolina Rural Rehabilitation Corporation

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

North Carolina Regional Economic Development

Commissions:

Northeastern North Carolina Regional Economic Development Commission

The Northeastern North Carolina Regional Economic Development Commission is a legally separate organization created to facilitate economic development and tourism in northeastern North Carolina. The Commission consists of 17 members, including the Secretary of Commerce and the Secretary of the Department of Environment and Natural Resources (or their designees), five members appointed by the Governor, five by the Speaker of the House, and five by the President Pro Tempore of the Senate. The State provides significant program and operating support to the Commission, creating a benefit/burden relationship.

Southeastern North Carolina Regional Economic Development Commission

The Southeastern North Carolina Regional Economic Development Commission is a legally separate organization created to build economic strength in southeastern North Carolina. The Commission consists of 15 members, with three appointed by the Governor, two by the Lieutenant Governor, five by the Speaker of the House, and five by the President Pro Tempore of the Senate. The State provides significant program and operating support to the Commission, creating a benefit/burden relationship.

Western North Carolina Regional Economic Development Commission

The Western North Carolina Regional Economic Development Commission is a legally separate organization created to improve economic opportunity in western North Carolina with sensitivity to the resources of that region. The Commission consists of 15 members, with five appointed by the N.C. House of Representatives, five by the N.C. Senate, three by the Governor, and two by the Lieutenant Governor. The State provides significant program and operating support to the Commission, creating a benefit/burden relationship.

Complete financial statements for the following component units can be obtained from the Office of the State

Auditor, 2 South Salisbury Street, 20601 Mail Service Center, Raleigh, N.C. 27699-0601.

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

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

N.C. Housing Finance Agency P.O. Box 28066 Raleigh, NC 27611-8066	MCNC P.O. Box 12889 Research Triangle Park, NC 27709-2889
State Education Assistance Authority P.O. Box 2688 Chapel Hill, NC 27515-2688	North Carolina Railroad Company 3200 Atlantic Avenue, Suite 110 Raleigh, NC 27604-1640
Western N.C. Regional Economic Development Commission P.O. Box 1258 Arden, NC 28704	N.C. Rural Economic Development Center, Inc. 4021 Carya Drive Raleigh, NC 27610
Northeastern N.C. Regional Economic Development Commission P.O. Box 29 Edenton, NC 27932	Southeastern N.C. Regional Economic Development Commission P.O. Box 2556 Elizabethtown, NC 28337
N.C. Biotechnology Center P.O. Box 13547 Research Triangle Park, NC 27709-3547	

The North Carolina Agricultural Finance Authority and the North Carolina Rural Rehabilitation Corporation do not issue separate financial statements.

C. Fund Accounting

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

NOTES TO THE FINANCIAL STATEMENTS
1. Primary Government (the State)
Governmental Funds

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

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

Proprietary Funds

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

Enterprise Funds

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

Internal Service Funds

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

Fiduciary Funds

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

Trust Funds

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

Agency Funds

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

Account Groups

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

NOTES TO THE FINANCIAL STATEMENTS

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group.

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

2. Component Units

Proprietary Funds

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

College and University Funds

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

D. Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds, nonexpendable trust, and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of proprietary funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings. Proprietary funds' and similar trust funds' operating

statements present increases (revenues) and decreases (expenses) in net total assets.

1. *Governmental Funds, Expendable Trust Funds and Agency Funds*

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

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

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

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

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

3. *College and University Funds*

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

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

E. Cash and Cash Equivalents

This classification appears on the accompanying combined balance sheet, combining statement of pension plan net assets, investment trust fund statement of net assets, and combined statement of cash flows. It includes deposits held by the State Treasurer in the short-term investment portfolio more fully discussed in Note 4, investment of bond proceeds, demand deposits with private financial institutions, and cash on hand. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior

NOTES TO THE FINANCIAL STATEMENTS

notice or penalty. Bond proceeds are invested in highly liquid securities with an original maturity of 3 months or less.

F. Investments

This classification includes deposits held by the State Treasurer in certain long-term investment portfolios more fully discussed in Note 4 as well as investments held separately by the State and its component units. It also includes each participating fund and component unit's share of the cash collateral received and invested by the State Treasurer under securities lending agreements. During the year the State reassessed which funds and component units bear the risk of loss on the collateral assets. This significantly affected the assets and liabilities reported by the individual funds and component units. Investments are generally valued at fair value. Additional investment valuation information is provided in Note 4.

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

G. Deposit with Federal Government

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

H. Receivables and Due from Other Funds

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

I. Advances to Other Funds

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

J. Inventories

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

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

K. 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. The State reports food stamp balances held by the State or by its agents at the balance sheet date as an asset offset by deferred revenue. Revenue, expenditures, and balances of food stamps are measured based on face value.

L. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. For financial reporting purposes, depreciation is not recorded on general fixed assets. Fixed assets of all proprietary funds are capitalized in the fund in which they are utilized and are depreciated either on the straight-line basis or on the units of output basis over their useful lives. Fixed assets of the UNC system and community colleges are capitalized in college and university funds. Depreciation is not reported on these assets.

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

NOTES TO THE FINANCIAL STATEMENTS

Occupational licensing boards use various thresholds to capitalize fixed assets.

The value of assets constructed by the State and its component units for their own use includes all material direct and indirect construction costs that are increased as a result of the construction. In proprietary funds and component units, interest costs incurred (if material) are capitalized during the period of construction.

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

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

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

M. 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".

N. Obligations Under Securities Lending

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

O. Tax Judgements Payable

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

P. Lease Obligations

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

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

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

Q. Compensated Absences

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

In the proprietary funds and college and university funds, the liability for accumulated unpaid vacation leave is reported as a current liability. For the same reasons as cited for governmental funds, no liability for unpaid accumulated sick leave is recorded.

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

The State's policy on compensated absences is generally adhered to by its agencies, departments, and most of its component units. Full-time permanent, probationary and trainee employees earn vacation leave ranging from 0.98 to 2.15 days per month, depending upon years of service. Part-time employees earn the same range of leave on a pro-rata amount based on the number of hours a week they work. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is 30 days. Any vacation accumulated beyond 30 days is converted to sick leave at year end. At termination, employees are paid for any accumulated vacation leave. Full-time permanent, probationary and trainee employees earn sick leave at the rate of one day per month with an unlimited accumulation. Part-time employees earn a

NOTES TO THE FINANCIAL STATEMENTS

percentage of the total of 8 hours per month based on the number of hours a week they work. Employees are not paid for accumulated sick leave upon termination; however, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

R. Long-Term Liabilities

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

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

S. Sureties

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

T. Fund Equity

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

U. Revenues**Taxes.**

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

Federal Grant Revenues.

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

V. Interfund Transactions

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

W. Totals - Memorandum Only

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: BUDGETARY ACCOUNTING AND REPORTING

A. Budgetary Process

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund, the State Highway Fund, the Highway Trust Fund, certain special revenue funds, and capital projects funds. However, budgets adopted by the General Assembly based on annual State tax and non-tax revenues for the State Highway Fund and the Highway Trust Fund are combined with federal and local participation revenues and are primarily budgeted and accounted for on a multi-year project basis. Capital projects funds are budgeted on a project basis. Since these funds have multi-year project budgets, they are not included in the budgetary comparison statement.

The accompanying budgetary comparison statement discloses the annual "appropriated budget" for the General Fund and budgeted special revenue funds. Actual amounts in the statement are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in Note 2 C.

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.

For the year ended June 30, 1999, there were 418 annually budgeted (*budgetary basis*) special revenue funds located in 46 departmental budget codes. A list of these funds and detailed appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 116 West Jones Street, Raleigh, NC 27603-8005.

B. Fund Balance Restatement

The July 1, 1998 fund balance for budgeted special revenue funds has been restated. Most of the university funds were transferred to institutional budget codes. In addition, some funds which were budgeted in the prior year have been reclassified as unbudgeted funds during the fiscal year. The following table summarizes these restatements (expressed in thousands).

Fund balance as previously reported	
at June 30, 1998	\$ 258,441
Funds removed:	
University funds	(42,379)
Unbudgeted funds	<u>(84,138)</u>
Fund balance as restated	
at July 1, 1998	<u>\$ 131,924</u>

C. Reconciliation of Budget/GAAP Reporting Differences

The *General Fund and Special Revenue Funds, Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances - Budget and Actual (Budgetary Basis - Non-GAAP)* - Exhibit A-3, presents comparisons of the legally adopted budget (which is more fully described in section A, above) with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

Entity differences. The State Highway Fund and the Highway Trust Fund, as discussed in section A, have multi-year budgets and therefore are not included in the budgetary statements. They are presented in the special revenue funds for GAAP purposes. Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in either the General Fund or the special revenue funds for GAAP purposes.

NOTES TO THE FINANCIAL STATEMENTS

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, 1999 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Unreserved fund balance (Exh. A-3, budgetary basis), June 30, 1999.....	\$ 296,702	\$ 108,217
Reserved fund balance (budgetary basis),		
Savings.....	522,521	—
Repairs and renovation.....	164,683	—
Retirees' health premium.....	288,024	—
Work First.....	17,362	—
N.C. Railroad acquisition.....	61,000	—
Aquariums.....	30,000	—
Disproportionate share.....	19,552	—
Clean Water Management Trust Fund.....	31,054	—
Capital Improvements.....	7,000	—
Fund balance (budgetary basis).....	<u>\$ 1,437,898</u>	<u>\$ 108,217</u>
Reconciling Adjustments:		
Entity Differences:		
Primary government:		
State Highway Fund.....	—	226,830
Highway Trust Fund.....	—	740,989
Other.....	211,686	1,408,749
Component unit.....	—	(7,949)
Basis Differences:		
Accrued revenues.....	90,670	4,971
Accrued expenditures		
Tax judgements.....	(399,000)	—
Other accrued expenditures.....	(711,430)	(9,881)
Other Adjustments:		
Federal retirees' refund account.....	287	—
Notes receivable.....	497	4,608
Inventories.....	48,105	5,477
Investments.....	51	—
Prepaid items.....	—	148
Timing Differences:		
Authorized carryforward of appropriated funds.....	465,366	—
Fund balance (Exh. A-2, GAAP basis) June 30, 1999.....	<u>\$1,144,130</u>	<u>\$2,482,159</u>

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. The 1999 Session of the General Assembly under Session Law 1999-237 Section 6(d), suspended the transfer of funds from the unreserved credit balance to the Savings Reserve Account (G.S. 143-15.2 and G/S/ 143-15.3) for the 1998-99 fiscal year only.

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

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

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

North Carolina Railroad Acquisition Reserve (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

NOTES TO THE FINANCIAL STATEMENTS

the North Carolina Railroad Company \$61 million for the retirement of non-State owned common stock shares of the Railroad. The \$61 million will remain in reserve until the related debt is satisfied.

Disproportionate Share Reserve Account (1997 General Assembly, Senate Bill 352, Section 11). Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as departmental receipts or non-tax revenues.

Work First (G.S. 143-15.3C). For the fiscal year 1997-98, the General Assembly established the Work First Reserve Fund. At the end of each fiscal year, the State Controller shall reserve State funds in an amount equalling one-fourth of any Work First Program funds from General Fund appropriations remaining unexpended at the end of the fiscal year, up to a

maximum balance in the account of \$50 million. The General Assembly may appropriate additional funds into this reserve.

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

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

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

General Fund Reserved Fund Balance	Balance June 30, 1998	Increases		(Decreases)			Balance June 30, 1999
		Transfers from General Fund Unreserved Fund Balance	Unbudgeted Revenues	Transfers to General Fund Unreserved Fund Balance	Transfers to Non- General Fund Budgetary Funds	Unbudgeted Expenditures	
Savings.....	\$ 522,521	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 522,521
Retirees' health premium.....	231,682	—	184,482	—	—	(128,140)	288,024
Repairs and renovations.....	174,190	150,000	1,064	(145,000)	(15,571)	—	164,683
NC Railroad acquisition.....	61,000	—	—	—	—	—	61,000
Clean water management.....	47,398	31,054	—	(47,398)	—	—	31,054
DPI allocation.....	55,028	—	—	—	(55,028)	—	—
Disproportionate share.....	35,447	—	19,552	(35,447)	—	—	19,552
Aquariums.....	—	30,000	—	—	—	—	30,000
Work First.....	19,541	—	321	—	—	(2,500)	17,362
Capital Improvements.....	—	7,000	—	—	—	—	7,000
Total.....	\$ 1,146,807	\$ 218,054	\$ 205,419	\$ (227,845)	\$ (70,599)	\$ (130,640)	\$ 1,141,196

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Retained Earnings / Fund Balance Deficit**Primary Government**

At June 30, 1999, the special revenue fund Educational Materials, School Buses Fund reported unreserved/undesignated fund balance deficit of \$21.812 million.

At June 30, 1999, the following enterprise funds reported retained earnings deficits: Agricultural Farmers Market, \$3.696 million; Indian Cultural Tourist Center, \$99 thousand; and Workers' Compensation, \$6.366 million.

At June 30, 1999, the following internal service funds reported retained earnings deficits: Applications Development Services, \$163 thousand; Cherry Hospital Auxiliary Services, \$1.814 million; John Umstead Hospital Auxiliary Services, \$3.288 million; and the Disability Income Plan of N.C., \$29.318 million.

Component Units

At June 30, 1999, the North Carolina Low Level Radioactive Waste Management Authority (component unit proprietary fund) had a \$33.384 million retained earnings deficit. The financial statements of the Authority have been prepared following the accounting principles that apply to developmental stage enterprises. The retained earnings deficit reflects losses sustained in the developmental stage. The North Carolina Low Level Radioactive Waste Management Authority was created in 1987 to locate, build, operate and close a repository in North Carolina. In July 1999, the General Assembly ratified Senate Bill 247 which withdraws North Carolina from the Southeast Compact after the State's unsuccessful attempts to locate a suitable geographic site for toxic waste storage. Each state within the Southeast Compact was to assume responsibility, on a twenty year rotating basis, as the Southeast's low-level radioactive waste repository. Additionally, Senate Bill 247 established that the sole function of the Authority is to finalize all business relating to closure and restoration of its proposed waste site on or before June 30, 2000. As of July 1, 2000, the Authority will officially cease to exist. Since the Authority currently has no revenue sources, the advance to the Authority is considered to be uncollectible.

At June 30, 1999, the North Carolina Railroad Company (component unit proprietary fund) had a \$51.709 million retained earnings deficit.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to deposit money with the State Treasurer. Expenditures for the primary government and certain component units are made by warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank or the local clearing banks. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; shares, deposits, savings certificates, and certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange or time drafts; asset-backed securities; and corporate bonds and notes with specified ratings.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the State Health Plan, the Disability Income Plan of N.C., the Escheats Fund, the Public School Insurance Fund, the State Education Assistance Authority, and trust funds of the University of North Carolina system, in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; individual and group trusts; certain real estate investment funds; and certain stocks and mutual funds.

External Investment Pool

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

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

commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer.

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

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

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

Venture Capital Investment – This portfolio holds investments in venture capital limited partnerships, the long-term investment portfolio and equities received in the form of distributions from its primary investments. The State's pension trust funds are the sole participants in the portfolio.

All of the above investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed above. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the Investment Pool. The Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the SEC and is not subject to any formal oversight other than that of the legislative body.

At year end, the 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, 1999**

Assets:	
Cash in bank.....	\$ 99,289
Accrued investment income.....	505,441
Investments.....	<u>71,371,255</u>
Total assets.....	<u>71,975,985</u>
Liabilities:	
Distributions payable.....	43,007
Obligations under securities lending.....	<u>7,751,232</u>
Total liabilities.....	<u>7,794,239</u>
Net Assets:	
Internal:	
Primary government.....	61,762,471
Component units.....	1,673,270
External.....	<u>746,005</u>
Total net assets.....	<u>\$ 64,181,746</u>

**Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 1999**

Increase in net assets from operations:	
Revenues:	
Investment income.....	<u>\$ 6,307,562</u>
Expenses:	
Securities lending expenses.....	387,073
Investment management.....	<u>43,879</u>
Total expenses.....	<u>430,952</u>
Net increase in net assets resulting from operations.....	5,876,610
Distributions to participants:	
Distributions paid and payable.....	(3,458,068)
Share transactions:	
Reinvestment of distributions.....	3,456,796
Net share purchases.....	<u>(550,104)</u>
Total increase in net assets.....	5,325,234
Net assets:	
Beginning of year.....	<u>58,856,512</u>
End of year.....	<u>\$ 64,181,746</u>

The external portion of the Investment Pool is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the Investment Pool is reported in the State's financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, and Venture Capital Investment portfolios is reported as investments. The internal equity of the investment pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund or component unit's share of the assets and liabilities arising from securities lending transactions are reported in the funds and component units.

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

determined monthly for the Long-term Investment and Equity Investment portfolios and quarterly for the Real Estate Investment and Venture Capital portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate funds, venture capital limited partnerships, and equity investment funds are valued using market prices provided by the investment managers. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the general fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 1999, \$85,018,634 of investment income associated with other funds was distributed to the general fund.

Bond Proceeds Investment Accounts

The State Treasurer has established separate investment accounts for each State bond issue to comply with IRS regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. The investments are valued at amortized cost, which approximates fair value. In the financial statements, each fund's equity in these accounts is reported as cash and cash equivalents.

Demand and Time Deposits

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

NOTES TO THE FINANCIAL STATEMENTS

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, 1999, the deposits maintained by the State Treasurer consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 99,289	\$ 117,258
Time.....	157,446	157,446
Total Deposits.....	<u>\$ 256,735</u>	<u>\$ 274,704</u>

At year end, 96 percent of the balances in financial institutions were deposited under the pooling method. Because the financial institutions complied with the collateralization policies and procedures by utilizing either the dedicated method or the pooling method described above, the State Treasurer considers all of its deposits to be either insured or covered by collateral held by the escrow agent.

Investments

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

	<u>Category</u>		<u>Carrying</u>
	<u>1</u>	<u>3</u>	<u>Amount</u>
Investment Pool			
Investments Categorized:			
U.S. government and agency securities:			
Not on loan.....	\$ 14,209,290	\$ 178,522	\$ 14,387,812
On loan for securities collateral.....	890,499	—	890,499
Corporate bonds and notes:			
Not on loan.....	8,985,628	4,502,814	13,488,442
On loan for securities collateral.....	6,379	—	6,379
Repurchase agreements.....	125,000	2,717,015	2,842,015
Commercial paper.....	—	352,881	352,881
International bonds.....	521,103	—	521,103
Domestic equities.....	12,663	—	12,663
Total Investments Categorized.....	<u>\$ 24,750,562</u>	<u>\$ 7,751,232</u>	32,501,794
Investments Not Categorized:			
Certificates of deposit.....			157,446
Equity-based trusts.....			30,323,126
Venture capital investments.....			37,157
Real estate trust funds.....			712,200
Investments held by broker/dealers under securities loans with cash collateral:			
U.S. government and agency securities.....			
			7,451,759
Corporate bonds and notes..			
			187,773
Total Investment Pool.....			<u><u>\$ 71,371,255</u></u>

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

Investment Classification	<u>Carrying</u>	<u>Principal</u>	<u>Range of</u>	<u>Range of</u>
	<u>Amount</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Maturities</u>
U.S. government and agency securities:				
U.S. Treasury notes and bonds.....	\$ 15,865,626	\$ 14,990,264	4.25 to 9.125%	15 days to 3 years
GNMA securities.....	4,705,173	4,791,831	6.0 to 9.0%	18 years to 30 years
U.S. agency notes and bonds.....	2,159,271	2,227,500	zero to 6.7%	19 days to 29 years
Corporate bonds and notes.....	13,682,594	13,863,726	4.875 to 14.5%	1 year to 36 years
Repurchase agreements.....	2,842,015	2,840,991	4.78 to 6.1%	1 to 13 days
Equity-based trusts.....	30,323,126	Not applicable	Not applicable	Not applicable

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

	<u>Category</u>	<u>Carrying</u>
	1	Amount
Bond Proceeds		
Investments Categorized:		
U.S. government and agency securities....	\$ 75,441	\$ 75,441
Repurchase agreements.....	506,121	506,121
Commercial paper.....	195,255	195,255
Total Investments.....	<u>\$ 776,817</u>	<u>\$ 776,817</u>

Securities Lending

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its Investment Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year the custodian lent U.S. government securities, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from 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, 1999, the weighted average maturity of unmatched investments was approximately two weeks.

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

B. Deposits Outside the State Treasurer

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

At June 30, 1999, the deposits maintained outside the State Treasurer by the primary government consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 16,318	\$ 21,787
Time.....	760,827	773,584
Total Deposits.....	<u>\$ 777,145</u>	<u>\$ 795,371</u>

Of these bank balances, \$359.548 million was covered by federal depository insurance, \$396.783 million by collateral held by the escrow agent in the depositor's name, and \$39.040 million was uninsured and uncollateralized. In addition, the North Carolina Employment Security Commission had \$1.284 billion on deposit with the U.S. Treasurer at June 30, 1999.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 1999, the deposits maintained by the component units consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 38,771	\$ 17,128
Time.....	89,982	102,013
Total Deposits.....	<u>\$ 128,753</u>	<u>\$ 119,141</u>

Of these bank balances, \$16.666 million was covered by federal depository insurance, \$17.971 million by collateral held by the escrow agent in the depositor's name, \$29.761 million was covered under the State Treasurer's collateral pool, \$6.607 million was covered by collateral held in the pledging bank's trust department in the depositor's name and \$48.136 million was uninsured and uncollateralized.

C. Investments Outside the State Treasurer

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

Primary Government

All organizations within the primary government are required to follow certain investment guidelines as outlined by the General Statutes. Of these organizations, the various clerks of superior court, the N.C. Deferred Compensation Plan (457), and the 401(k) Supplemental Retirement Income Plan comprise 98% of the total investments maintained by primary

government at June 30, 1999. 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 the following: (a) Obligations of or fully guaranteed by the United States as to both principal and interest; (b) Obligations of the State of North Carolina; (c) General obligations of cities, counties, and special districts in North Carolina; (d) Shares of or deposits in specified savings and loan associations; (e) Savings certificates issued by specified savings and loan associations; (f) Certificates of deposit issued by specified banks.

General Statute 143B-426.25(j) allows the Deferred Compensation Plan Board to acquire investment vehicles from any company authorized to conduct such business in this State or may establish, alter, amend and modify, to the extent it deems necessary or desirable, a trust for the purpose of facilitating the administration, investment and maintenance of assets acquired by the investment of deferred funds. Any assets of such investment vehicles or trusts shall remain solely the property and rights of the State subject only to the claims of the State's general creditors.

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

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

	<u>Category</u>			<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
<i>Investments Categorized:</i>				
U.S. Government securities.....	\$ 13,734	\$ 611	\$ 597	\$ 14,942
State and municipal securities.....	686	—	—	686
Corporate bonds.....	—	—	32	32
Corporate common stock.....	51	—	603	654
<i>Total Investments Categorized.....</i>	<u>\$ 14,471</u>	<u>\$ 611</u>	<u>\$ 1,232</u>	16,314
<i>Investments Not Categorized:</i>				
Certificates of deposits.....				77,323
Bank investment contracts.....				322,715
Money market funds.....				2,120
Mutual funds.....				1,614,284
Annuity contracts.....				230,451
Other investments.....				15,778
Total Investments.....				<u>\$ 2,278,985</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Component Units

The component units of the State (except for the North Carolina Railroad) are required to follow certain investment guidelines as outlined by the General Statutes. The component units include the University of North Carolina system, the community colleges and proprietary component units, such as the North Carolina Biotechnology Center, the North Carolina State Ports Authority, the Rural Economic Development Center, and the North Carolina Housing Finance Agency. The investments by these units comprise 98% of the total investments maintained by the component units at June 30, 1999. The investments by the component units adhere to the following General Statutes guidelines.

General Statute 115D-58.6 authorizes the community colleges to invest in the following: (a) Obligations of or fully guaranteed by the United States; (b) Obligations of the State of North Carolina; (c) Bonds and notes of any North Carolina local government or public authority; (d) Obligations of certain non-guaranteed federal agencies; (e) Prime quality commercial paper bearing specified ratings and bankers' acceptances; (f) The North Carolina Cash Management Trust, an SEC registered mutual fund; (g) Commingled investment pool established and administered by the State Treasurer; (h) Repurchase agreements; (i) Evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either 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.

General Statute 122A-11 authorizes the North Carolina Housing Finance Agency to invest in the following: (a) 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; (b) Evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either 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; (c) 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; (d) 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; (e) Repurchase agreements.

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

Biotechnology Center, or the North Carolina State Ports Authority. However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The University of North Carolina at Chapel Hill operates an Investment Fund, which is a governmental external investment pool. The University operates the Investment Fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Separate financial statements for the Investment Fund may be obtained from the University.

NOTES TO THE FINANCIAL STATEMENTS

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

	<i>Category</i>			<i>Carrying</i>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
<i>Investments Categorized:</i>				
U.S. Government securities.....	\$ 170,647	\$ 37,514	\$ 18,537	\$ 226,698
Collateralized mortgage obligations.....	44,388	3,026	—	47,414
State and municipal securities.....	5,853	110	—	5,963
Corporate bonds.....	67,302	5,877	1,405	74,584
Corporate common stock.....	240,479	106,779	16,740	363,998
Repurchase agreements.....	217,937	1,341	2,264	221,542
Commercial paper.....	22,276	1,000	—	23,276
International corporate bonds.....	102	—	—	102
International government bonds.....	371	—	—	371
International equity securities.....	162,270	2,614	—	164,884
<i>Total Investments Categorized.....</i>	<u>\$ 931,625</u>	<u>\$ 158,261</u>	<u>\$ 38,946</u>	1,128,832
<i>Investments Not Categorized:</i>				
Certificates of deposits.....				27,394
Investment agreements.....				13,429
Money market funds.....				139,689
Mutual funds.....				330,197
Real estate.....				39,610
Real estate investment trust.....				35,805
Limited partnerships.....				210,909
Investments held by broker-dealers under reverse repurchase agreements:				
U.S. Government securities.....				91,020
N.C. Cash Management Trust.....				866
Other investments.....				<u>37,608</u>
Total Investments.....				<u>\$ 2,055,359</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Reverse Repurchase Agreements - The University of North Carolina at Chapel Hill enters into fixed coupon reverse repurchase agreements, that is, the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$5.5 million. All sales under reverse repurchase agreements are for fixed terms. The University's policy for investing the proceeds of reverse repurchase agreements is that the term to maturity of the investment be the same as the term of the reverse repurchase agreement. Such matching existed at year-end.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: FIXED ASSETS

Primary Government:

A summary of changes in general fixed assets for the year ended June 30, 1999 is presented below (dollars in thousands).

	Balance July 1, 1998	Prior Year Adjustments	Transfers		Additions	Deletions	Balance June 30, 1999
			Between Assets	Between Funds			
Land.....	\$ 258,419	\$ 24,474	\$ 85	\$ (9)	\$ 28,330	\$ 10,223	\$ 301,076
Buildings.....	1,386,502	382	38,523	104,361	2,193	2,557	1,529,404
Other structures and improvements.....	141,042	493	2,137	1,046	3,302	772	147,248
Machinery and equipment.....	968,045	489	268	217	119,539	47,138	1,041,420
Art, literature and artifacts.....	38,908	1,084	—	—	3,481	62	43,411
Construction in progress.....	385,633	(6,051)	(41,013)	(115,647)	97,899	317	320,504
Total — General Fixed Assets...	<u>\$ 3,178,549</u>	<u>\$ 20,871</u>	<u>\$ —</u>	<u>\$ (10,032)</u>	<u>\$ 254,744</u>	<u>\$ 61,069</u>	<u>\$ 3,383,063</u>

A summary of proprietary funds' fixed assets by classification for the primary government, at June 30, 1999, is presented below (dollars in thousands).

	Enterprise	Internal Service
Land.....	\$ 2,855	\$ 3,608
Buildings.....	25,658	38,029
Other structures and improvements...	7,068	12,316
Machinery and equipment.....	2,674	275,469
Construction in progress.....	774	10,538
	39,029	339,960
Less: Accumulated depreciation.....	(16,966)	(158,451)
Total Fixed Assets.....	<u>\$ 22,063</u>	<u>\$ 181,509</u>

Component Units:

A summary of fixed assets by classification for the component units, at June 30, 1999, is presented below (dollars in thousands).

	Proprietary Funds						Total
	N.C. State Ports Authority	N.C. Global TransPark Authority	MCNC	North Carolina Railroad	N.C. Biotechnology Center	Other Component Units	
Land.....	\$ 12,807	\$ 6,923	\$ —	\$ —	\$ —	\$ 525	\$ 20,255
Buildings.....	110,816	6,689	32,889	339	7,271	1,997	160,001
Other structures and improvements...	39,741	7,815	—	7,848	—	172	55,576
Machinery and equipment.....	51,716	1,635	14,572	—	1,614	4,778	74,315
Construction in progress.....	1,782	9,136	—	—	—	154	11,072
	216,862	32,198	47,461	8,187	8,885	7,626	321,219
Less:							
Accumulated depreciation.....	(94,799)	(5,835)	(37,496)	(326)	(3,197)	(2,838)	(144,491)
Total Fixed Assets.....	<u>\$ 122,063</u>	<u>\$ 26,363</u>	<u>\$ 9,965</u>	<u>\$ 7,861</u>	<u>\$ 5,688</u>	<u>\$ 4,788</u>	<u>\$ 176,728</u>

College and University Funds

	Community		Total
	University	Colleges	
Land.....	\$ 65,695	\$ 80,701	\$ 146,396
Buildings.....	2,868,093	765,741	3,633,834
Other structures and improvements...	259,644	39,341	298,985
Machinery and equipment.....	690,163	119,421	809,584
Art, literature and artifacts.....	649,583	66,842	716,425
Construction in progress.....	487,745	154,717	642,462
Total Fixed Assets.....	<u>\$ 5,020,923</u>	<u>\$ 1,226,763</u>	<u>\$ 6,247,686</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for office, communications, computer and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. For the year ended June 30, 1999, total operating lease expenditures were \$38,064,257 for Primary Government, \$16,922,012 for Universities, \$3,527,367 for Community Colleges, and \$610,862 for other component units. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 1999 are (dollars in thousands):

Fiscal Year	<u>Operating Leases</u>		<u>Capital Leases</u>				
	<i>Primary Government</i>	<i>Component Units</i>	<i>Primary Government</i>		<i>Component Units</i>		
			General Long-Term Obligations	University Funds	Community Colleges Funds	Total Colleges and University Funds	<i>Proprietary</i>
2000.....	\$ 33,428	\$ 13,634	\$ 442	\$ 151	\$ 230	\$ 381	\$ 1,174
2001.....	25,298	10,398	374	144	153	297	1,563
2002.....	18,302	6,599	191	123	8	131	3
2003.....	12,391	4,467	—	117	—	117	—
2004.....	8,950	2,331	—	117	—	117	—
Thereafter.....	28,842	15,440	—	195	—	195	—
Total Future Minimum Lease Payments.....	\$ 127,211	\$ 52,869	1,007	847	391	1,238	2,740
Less Amounts Representing Interest			103	200	41	241	516
Present Value of Future Minimum Lease Payments			\$ 904	\$ 647	\$ 350	\$ 997	\$ 2,224

Falls Lake Operating Lease. The State has leased from the federal government approximately 40,000 acres of land and water areas at Falls Lake, located in Wake and Durham counties. The agreement allows the State to operate the areas for recreational purposes, and in return the State agreed to pay for one half of the development costs. Payments, which have not yet begun, are to take place over 50 years with an option to prepay. Current cost estimates indicate that the State has a total obligation of \$57.8 million, including \$31.4 million in interest and \$26.4 million in principal. Annual payments are estimated to be \$1.156 million beginning in fiscal year 1999-2000. Since the costs and payment period are yet to be finalized, this commitment has not been included in the above table.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: LONG-TERM OBLIGATIONS

A. Changes in Long-Term Liabilities

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the general long-term obligations account group (dollars in thousands):

	Rates	Balance June 30, 1998	Accretion	Increases	Decreases	Balance June 30, 1999
General Obligation Bonds :						
Public School Facility, Series C, 6-1-76.....	4.0-6.0	\$ 2,000	\$ —	\$ —	\$ 2,000	\$ —
Clean Water, Series C, 6-1-76.....	4.0-6.0	1,000	—	—	1,000	—
Public Improvement, 1979, 11-1-79.....	5.5-7.5	5,000	—	—	5,000	—
Capital Improvement, Series 1989, 5-1-89.....	6.5-6.9	14,349	994	—	1,910	13,433
Capital Improvement, Series A, 3-1-91.....	5.75-6.0	33,100	—	—	8,300	24,800
Capital Improvement, Series 1991, 10-1-91.....	5.3-5.6	24,900	—	—	6,200	18,700
Prison and Youth Services Facilities, Series A, 3-1-92.....	5.9-6.2	35,200	—	—	8,800	26,400
Prison and Youth Services Facilities, Series B, 10-1-93.....	2.5-4.5	76,500	—	—	3,600	72,900
Public Improvement Refunding, Series 1993, 10-1-93.....	2.4-5.5	39,585	—	—	17,665	21,920
Clean Water Refunding, Series 1993, 10-1-93.....	3.0-5.0	10,625	—	—	4,130	6,495
Prison & Youth Services Facilities Refunding, Series C, 10-15-93.....	4.2-4.8	64,685	—	—	590	64,095
Capital Improvement, Series 1994A, 2-1-94.....	4.6-4.75	372,000	—	—	7,500	364,500
Clean Water, Series 1994A, 10-1-94.....	5.7-5.8	36,000	—	—	26,000	10,000
Clean Water, Series 1994B, 11-1-94.....	4.7-5.0	8,000	—	—	4,000	4,000
Clean Water, Series 1995A, 6-1-95.....	5.0-5.25	57,000	—	—	3,000	54,000
Clean Water, Series 1995B, 7/1/95.....	4.25-4.3	10,000	—	—	5,000	5,000
Capital Improvement, Series 1997, 1-1-97.....	4.8-5.1	192,000	—	—	3,000	189,000
Public School Building, Series 1997A, 3-1-97.....	5.1-5.2	442,000	—	—	8,000	434,000
Public School Building, Series 1998A, 4-1-98.....	4.75-5.0	450,000	—	—	16,000	434,000
Highway, Series 1997A, 11-1-97.....	4.5-5.0	250,000	—	—	16,675	233,325
Public School Building, Series 1999, 4-1-99.....	4.5-5.0	—	—	450,000	—	450,000
Clean Water Refunding, Series 1999, 4-1-99	2.9-5.0	—	—	25,905	500	25,405
Total Bonds Payable.....		<u>2,123,944</u>	<u>994</u>	<u>475,905</u>	<u>148,870</u>	<u>2,451,973</u>
Other Long-Term Obligations :						
Tax judgements payable.....		732,000	—	107,000	399,000	440,000
Notes payable.....	5.7-5.77	4,166	—	1,123	2,019	3,270
Deferred death benefit payable.....		100	—	45	—	145
Obligations for workers' compensation.....		7,301	—	88	602	6,787
Capital leases payable.....		190	—	841	127	904
Accrued vacation leave.....		191,392	—	10,513	8,927	192,978
Total General Long-Term Obligations.....		<u>\$ 3,059,093</u>	<u>\$ 994</u>	<u>\$ 595,515</u>	<u>\$ 559,545</u>	<u>\$ 3,096,057</u>

B. Tax Judgements Payable

On May 25, 1999, the North Carolina Superior Court entered judgement in *Smith* against the State in the amount paid by non-protesting taxpayers for tax years 1991-1994. In a closely related class action tax refund case, *Shaver v. State of North Carolina*, filed July 16, 1998, non-protesting taxpayers sought refunds, totaling approximately \$100 million, for tax year 1990. On July 8, 1999, class counsel in *Smith* and *Shaver* entered into a settlement agreement with the State, subject to the General Assembly's approval, providing for the payment of the *Smith* and *Shaver* claims for a total of \$440 million to be paid in two installments. The settlement agreement provided for an initial payment of \$200 million to be paid on October 1, 1999, and a final payment of \$240 million on July 10, 2000. The liability of \$440 million is reported in the General Long-term Obligations Account Group.

NOTES TO THE FINANCIAL STATEMENTS

C. Bonds and Notes Payable

Bonds and notes payable at June 30, 1999 were (dollars in thousands):

	Interest Rates	Final Maturity	Total
Primary Government:			
General long-term obligations:			
Bonds payable.....	2.4 - 6.9	4/1/18	\$ 2,451,973
General long-term obligations:			
Notes payable.....	5.7-5.77	7/1/13	3,270
Component Units:			
University Funds:			
Bonds payable.....	2.88 - 9.25	2/15/29	897,654
Other Component Units:			
Housing Finance:			
Bonds payable.....	3.6 - 8.25	1/1/30	1,001,137
Other:			
Bonds payable.....	3.45 - 6.35	7/1/28	534,347
College and University Funds:			
Notes payable.....	0.00-7.4	5/1/22	20,163
Other Component Units:			
Notes payable.....	1.0 - 8.88	4/20/08	28,314

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

D. Bonds Authorized but Unissued

In November 1996, the voters of North Carolina approved bonds in the amount of \$1.8 billion for school construction and \$950 million for highway construction. On November 1, 1997, \$250 million of Highway Bonds, Series 1997A, with a settlement date of May 1, 2013, were sold. On April 1, 1998, \$450 million of Public School Building Bonds, with a settlement date of April 1, 2016, were sold and on April 1, 1999, \$450 million of Public School Building Bonds, with a settlement date of April 1, 2018, were sold. In November 1998, North Carolina voters approved \$800 million of new debt to finance grants and loans to local government units for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation and water reuse projects. In addition, \$200 million of new debt was approved to finance grants, loans, or other financing to public or private entities for construction of natural gas facilities. The amount of authorized but unissued bonds was \$2.15 billion as of June 30, 1999.

The limitations on the increase of State debt are contained in the State Constitution, Article 5, Section 3. This section restricts the General Assembly from contracting debts secured by a pledge of the faith and credit of the State, unless approved by a majority of the qualified voters of the State except for:

1. To fund or refund a valid existing debt;
2. To supply an unforeseen deficiency in the revenue;

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

E. Capital Appreciation Bonds

General Obligation Bonds

Capital Improvement Bonds, Series 1989, 5-1-89, 5-24-89, include capital appreciation bonds recorded in the amount of \$13.433 million, which represents the accreted value of these bonds. The accumulated accretion for the capital appreciation bonds is \$10.924 million since May 24, 1989.

University Bonds

The *University of North Carolina at Chapel Hill, Series 1997 Utility System* and the *Series 1991 U. S. Environmental Protection Agency Project* bond issues include capital appreciation bonds with an ultimate maturity value of \$84.135 million and \$25.275 million, respectively. These bonds are recorded in the amounts of \$33.214 million and \$7.808 million, respectively, which is the accreted value at June 30, 1999. These bonds mature in the years from 2010 to 2021.

F. Demand Bonds

University Revenue Bonds

Athletic Facilities, Series 1998

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

Under an irrevocable letter of credit issued by Wachovia Bank, N. A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee for the letter of credit of .26% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia in which it has agreed that upon the earlier of termination of the letter of credit or one year from a

NOTES TO THE FINANCIAL STATEMENTS

purchase draw date to repay amounts that represent purchase drawings under the letter of credit. Interest at the rate of prime is payable quarterly and upon draw repayment. At June 30, 1999, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends so that termination will not occur until 364 days after notice is received from Wachovia that the letter of credit will not be extended. As of June 30, 1999, the earliest such termination date is June 29, 2000.

Parking System, Series 1997C

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

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

The University has agreed to pay interest on each liquidity bond at LIBOR (London Interbank Offering Rate) plus .50% on each scheduled bond interest payment date. At June 30, 1999, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by Bank of America is received 365 days prior to the expiration date. As of June 30, 1999, the earliest such termination date is June 30, 2000.

Kenan Stadium, Series 1996

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

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

The University has entered into a reimbursement agreement with Wachovia Bank in which it has agreed that upon the earlier of termination of the letter of credit or one year from a purchase draw date to repay amounts that represent purchase drawings under the letter of credit. Interest at the rate of prime is payable quarterly and upon draw repayment. At June 30, 1999, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends so that termination will not occur until 364 days after notice is received from Wachovia that the letter of credit will not be extended. As of June 30, 1999, the earliest such termination date is June 29, 2000.

Ambulatory Care Clinic, Series 1990

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

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

The University has agreed to pay interest on each liquidity bond at LIBOR plus .40% on each scheduled bond interest payment date. At June 30, 1999, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by Bank of America is received 365 days prior to the expiration date. As of June 30, 1999, the earliest such termination date is June 30, 2000.

NOTES TO THE FINANCIAL STATEMENTS
Ambulatory Care Clinic, Series 1992

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

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

Notes held by Wachovia under this liquidity facility are subject to mandatory redemption 180 days after the date of purchase by Wachovia at an amount equal to the principal plus accrued interest at the Adjusted Euro-Dollar rate. At June 30, 1999, no notes had been purchased under the liquidity facility.

The liquidity facility terminates not earlier than 180 days following delivery of a termination notice by Wachovia. As of June 30, 1999, the earliest such termination date is December 27, 1999.

Carolina Inn, Series 1994

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

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

The University has agreed to pay interest on each liquidity bond at LIBOR plus .50% on each scheduled bond interest payment date. At June 30, 1999, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement

upon expiration or termination of the agreement. The term of this agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by Bank of America is received 365 days prior to the expiration date. As of June 30, 1999, the earliest such termination date is June 30, 2000.

School of Dentistry, Series 1995

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

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

The University has entered into a reimbursement agreement with Wachovia Bank in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest at the rate of prime for the first 90 days and prime plus 1.5% thereafter is payable quarterly and upon termination. At June 30, 1999, 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 that the letter of credit will not be extended. As of June 30, 1999, the earliest such termination date is July 5, 2000.

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

On November 3, 1998, East Carolina University issued variable rate demand bonds in the amount of \$3,645,000 that have a final maturity date of October 1, 2008. The bonds are subject to mandatory sinking fund redemption that begins 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 remarketing agent, Salomon Smith Barney, Inc.

Under a standby bond purchase agreement issued by Bank of America, 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

NOTES TO THE FINANCIAL STATEMENTS

delivered for purchase. The University is required to reimburse the University of North Carolina System for annual commitment fees for the standby bond purchase agreement.

The University has entered into a reimbursement agreement with Bank of America in which it has agreed that upon the earlier of termination of the letter of credit or one year from a purchase draw date to repay amounts that represent purchase drawings under the letter of credit. Interest at the rate of prime is payable quarterly and upon draw repayment. At June 30, 1999, no purchase drawings had been made under the letter of credit.

The standby bond purchase agreement automatically extends so that termination will not occur until 364 days after notice is received from Bank of America that the agreement will not be extended. As of June 30, 1999, the earliest such termination date is June 29, 2000.

Athletic Department, Series 1996

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

Under an irrevocable direct-pay letter of credit issued by Wachovia Bank, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and

amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of .30% of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia Bank in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest is charged at the rate of prime. At June 30, 1999, no drawings had been made under the letter of credit.

The letter of credit automatically extends every month so that termination will not occur until 13 months after notice is received from Wachovia Bank that the letter of credit will not be extended. As of June 30, 1999, the earliest such termination date is July 31, 2000.

NOTES TO THE FINANCIAL STATEMENTS
G. Debt Service Requirements**Bonds Payable and Notes Payable**

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds and revenue bonds, as well as on notes payable, outstanding at June 30, 1999 (dollars in thousands). Current and long-term principal requirements are disclosed for the proprietary component unit funds.

<i>Fiscal Year</i>	Bonds Payable				Notes Payable		
	<i>Primary Government</i>	<i>Component Units</i>			<i>Primary Government</i>	<i>Component Units</i>	
	<i>General Long-Term Obligations Account Group</i>	<i>Proprietary</i>			<i>General Long-Term Obligations Account Group</i>	<i>Proprietary Funds</i>	<i>College and University Funds</i>
		<i>N. C. Housing Finance</i>	<i>Other Proprietary Funds</i>	<i>University Funds</i>			
2000	\$ 260,582	\$ 77,132	\$ 28,346	\$ 77,249	\$ 2,376	\$ 25,827	\$ 9,050
2001	254,109	78,701	28,293	81,638	115	1,017	2,756
2002	247,245	78,632	29,221	81,272	115	778	2,495
2003	240,326	78,530	29,147	81,009	115	639	1,504
2004	233,496	77,482	62,277	80,482	115	134	1,399
2005-2009	1,067,491	379,153	171,538	377,915	574	402	5,326
2010-2014	872,040	372,767	116,344	315,236	554	—	1,112
2015-2019	365,884	363,224	231,315	231,830	—	—	528
2020-2024	—	328,625	66,255	135,234	—	—	317
2025-2029	—	239,358	321,969	49,715	—	—	—
2030-2034	—	21,825	—	—	—	—	—
Total requirements	3,541,173	2,095,429	1,084,705	1,511,580	3,964	28,797	24,487
Less:							
Interest requirements	(1,083,523)	(1,074,174)	(550,358)	(596,893)	(694)	(483)	(4,324)
Unamortized discount	(5,677)	—	—	(16,067)	—	—	—
Deferred charges	—	(20,118)	—	(256)	—	—	—
Underwriters fees	—	—	—	(710)	—	—	—
Total principal requirements	<u>\$ 2,451,973</u>	<u>\$ 1,001,137</u>	<u>\$ 534,347</u>	<u>\$ 897,654</u>	<u>\$ 3,270</u>	<u>\$ 28,314</u>	<u>\$ 20,163</u>
<i>Current portion</i>		\$ 77,132	\$ 1,110			\$ 22,825	
<i>Long-term portion</i>		\$ 924,005	\$ 533,237			\$ 5,489	

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

The State and universities have incurred an arbitrage rebate liability in connection with general obligation and university revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 1999 have been recorded (dollars in thousands) in the following funds:

Capital projects funds.....	\$ 88
Special revenue funds.....	5,788
University funds.....	<u>3,070</u>
Total	<u>\$ 8,946</u>

I. Bond Defeasances**State of North Carolina**

On March 17, 1999, the State of North Carolina issued \$25,905,000 in *Clean Water Refunding Bonds, Series 1999* with an average interest rate of 4.4563%. The refunding component of this bond issue was used to advance refund (defease) \$24,000,000 of specific maturities of outstanding *Clean Water Bonds, Series 1994A* with an average interest rate of 5.7564% stated to mature on June 1, 2005 to 2016, inclusive. Net proceeds of \$26,198,222, which includes a premium of \$277,184 and accrued interest of \$16,038, resulted from the bond sale. Of the net proceeds amount, \$26,127,201 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 specific maturities of *Clean Water Bonds, Series 1994A*. As a result, the specific maturities of *Clean Water Bonds, Series 1994A* are considered to be defeased and the liability for these bonds has been removed from the general long-term obligations account group. The State reduced its debt service requirements by \$1,522,098 over the next 18 years and obtained an economic gain of \$1,066,791. At June 30, 1999, the outstanding balance of the defeased bonds was \$24,000,000. At June 30, 1999, the remaining balance (not defeased) of the *Clean Water Bonds, Series 1994A* in the general long-term obligations account group was \$10,000,000.

North Carolina State University

On November 3, 1998, North Carolina State University issued \$1,695,000 in *North Carolina State University at Raleigh Gymnasium System Revenue Refunding Bonds*, through the System Wide Financing, with an average interest rate of 4.27%. The refunding component of this bond issue was used to currently refund (defease) \$4,840,000 of outstanding *North Carolina State University at Raleigh Gymnasium System Revenue Bonds, Series 1987* with a combined average interest rate of 5.85%. Net proceeds of \$5,018,960 resulted from the bond sale. The University reduced its debt service requirements by \$765,535 over the next 9 years and obtained an economic gain of \$149,139.

Winston-Salem State University

On August 11, 1998, Winston-Salem State University issued \$8,430,000 in *Winston-Salem State University Housing and Dining System Revenue Refunding Bonds, Series 1998B* with a weighted average interest rate of 4.72%. The refunding component of this bond issue was used to advance refund (defease) \$7,615,000 of outstanding *Winston-Salem State University Housing and Dining System Revenue Bonds, Series 1992A* with a combined weighted interest rate of 6.37%. Net proceeds of \$8,157,830 resulted from the bond sale. Of the net proceeds amount, \$7,912,606 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 \$595,889 over the next 19 years and obtained an economic gain of \$400,149. At June 30, 1999, the outstanding balance was \$7,615,000 for the defeased *Winston-Salem State University Housing and Dining System Revenue Bonds, Series 1992A*.

North Carolina School of the Arts

On November 3, 1998, The North Carolina School of the Arts issued \$1,080,000 in *Dormitory and Dining Hall System Revenue Refunding Bonds*, through the System Wide Financing, with an average interest rate of 4.37%. The refunding component of this bond issue, combined with other University funds, was used to currently refund (defease) \$1,355,000 of outstanding *Dormitory and Dining Hall System Revenue Bonds, Series A*, with a combined average interest rate of 7.15%. Net proceeds of \$1,074,474 resulted from the bond sale. The University reduced its debt service requirements by \$446,940 over the next 11 years and obtained an economic gain of \$341,716.

UNC Hospitals

On June 3, 1999, the Board of Governors of The University of North Carolina issued \$58,925,000 in *Revenue Refunding Bonds, Series 1999* with a net interest cost of 5.07%. The refunding component of this bond issue was used to advance refund (defease) \$55,595,000 of outstanding *Revenue Bonds, Series 1992* with a combined net interest cost of 6.25%. Net proceeds of \$58,061,839 resulted from the bond sale. U.S. Government securities in the amount of \$58,829,871 were purchased and 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. UNC Hospitals reduced its debt service requirements by \$4,935,914 over the next 25 years and obtained an economic gain of \$2,809,816. At June 30, 1999, the outstanding balance was \$55,595,000 for the defeased *Revenue Bonds, Series 1992*.

NOTES TO THE FINANCIAL STATEMENTS**North Carolina Housing Finance Agency**

On February 17, 1999, the North Carolina Housing Finance Agency issued \$41,840,000 in *Single Family Revenue Bonds (1985 Resolution), Series WW* with an average interest rate of 6.25%, the proceeds of which were used to optionally redeem the *Single Family Revenue Bonds (1985 Resolution), Series G/H and I*. This refunding resulted in a deferred loss of approximately \$741,200, of which \$657,000 was unamortized bond issuance costs for the refunded issue. The refunding resulted in a decrease in total debt service payments of \$19,689,000 and an economic gain of \$2,832,000.

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, 1999, the outstanding balance of current and prior year defeased bonds was \$83.6 million for the primary government and \$153.2 million for the component units.

J. Bond Redemptions

Provisions of bond series resolutions for the North Carolina Housing Finance Agency provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues or from unexpended bond proceeds of the issues along with the related decreases in the respective debt service reserve requirements. In addition, various bond issues are redeemable at the option of the Agency at premiums ranging up to 10% during periods from 10 to 16 years after the date of issuance.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables as of June 30, 1999 are as follows (dollars in thousands):

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Primary Government		
General:		
General Fund.....	\$ 84,711	\$ 47,523
Special Revenue:		
State Highway Fund.....	10,202	86,250
Highway Trust Fund.....	72,749	—
Clean Water Management Trust Fund.....	—	2
Employment Security Commission Funds.....	2,143	—
Employment and Training Administration Fund.....	—	17
Highway Patrol Fund.....	—	61
Community Colleges Special Programs Fund.....	—	28,898
Wildlife Resources Commission Fund.....	356	704
Other Funds.....	<u>4,852</u>	<u>2,574</u>
Total Special Revenue Funds.....	<u>90,302</u>	<u>118,506</u>
Capital Projects:		
Capital Projects Fund.....	<u>2,400</u>	<u>77</u>
Total Capital Projects Funds.....	<u>2,400</u>	<u>77</u>
Enterprise:		
Public School Insurance.....	—	3
N.C. State Fair.....	<u>—</u>	<u>6</u>
Total Enterprise Funds.....	<u>—</u>	<u>9</u>
Internal Service:		
State Health Plan.....	—	1
State Property Fire Insurance.....	—	2,840
Prison Enterprises.....	6,835	78
Motor Fleet Management.....	4,844	371
Courier Service.....	—	53
Temporary Solutions.....	19	1
N.C. Information Highway.....	411	369
Centralized Computing Services.....	9,695	1,534
State Telecommunications Services.....	4,492	9
Applications Development Services.....	357	1,404
Decentralized Computing Services.....	1,731	—
Surplus Property.....	<u>—</u>	<u>151</u>
Total Internal Service.....	<u>28,384</u>	<u>6,811</u>
Expendable Trust:		
Unemployment Compensation Funds.....	—	74
Escheat Fund.....	25,710	14,531
Recreation and Natural Heritage Trust Fund.....	208	107
Other Funds.....	<u>378</u>	<u>68</u>
Total Expendable Trust.....	<u>26,296</u>	<u>14,780</u>

NOTES TO THE FINANCIAL STATEMENTS

	<u><i>Interfund Receivables</i></u>	<u><i>Interfund Payables</i></u>
Primary Government		
(continued)		
Nonexpendable Trust:		
Wildlife Endowment Program.....	—	1
Clean Water Revolving Loan and Grant Fund.....	—	1
Total Nonexpendable Trust.....	<u>—</u>	<u>2</u>
Pension Trust Funds:		
Firemen's and Rescue Squad Workers' Pension Fund.....	—	1
Agency:		
Local Sales Tax Collections.....	6,554	—
Clerks of Court.....	325	2,486
Departmental Agency Funds.....	50	11,147
Total Agency.....	<u>6,929</u>	<u>13,633</u>
Component Units		
Proprietary:		
N.C. Housing Finance Agency.....	—	3
North Carolina Railroad Company.....	—	62,843
N.C. Global TransPark Authority.....	—	25,710
State Education Assistance Authority.....	14,531	—
Total Proprietary Funds.....	<u>14,531</u>	<u>88,556</u>
College and University:		
University Funds.....	75,742	63,345
Community Colleges Funds.....	29,426	3,653
Total University and Community College.....	<u>105,168</u>	<u>66,998</u>
Subtotal.....	\$ 358,721	\$ 356,896
Timing difference — North Carolina Railroad Company.....	—	1,825
Total.....	<u>\$ 358,721</u>	<u>\$ 358,721</u>

Included in the category of interfund receivables are "Due from other funds," "Due from component units," "Due from primary government," and "Advance to component units." Included in the category of interfund payables are "Due to other funds," "Due to component units," "Due to primary government," and "Advance from primary government." Interfund receivables exceeded interfund payables in the amount of the General Fund's \$1.825 million of interest (Due from component unit) on the \$61 million advance to the North Carolina Railroad Company (Railroad), a discretely presented component unit. This difference is the result of different fiscal years of the State and the Railroad. The Railroad's financial statements are as of and for the fiscal year ended December 31, 1998.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: RETIREMENT PLANS

The State reports seven retirement plans as pension trust funds. This note describes the six defined benefit public employee retirement plans administered by the State. The remaining plan, described in Note 10, is the Supplemental Retirement Income Plan, a defined contribution plan provided under the Internal Revenue Code Section 401(k). Although the assets of the six defined benefit plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for administrative costs, in accordance with the terms of the plan. Separate reports are not issued for the plans described in this note. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

A. Plan Descriptions and Contribution Information

1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, and local boards of education not in the reporting entity. Membership is comprised of employees of state agencies and institutions, local boards of education, universities and community colleges and certain proprietary component units. At June 30, 1999, 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 and by employer contributions of 7.42% of covered payroll for the period July 1, 1998 through June 30, 1999, in addition to investment income. Benefit and actuarially based contribution provisions are established by G.S. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

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

2. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation and employer contributions of 16.97% of covered payroll, for the period July 1, 1998 through June 30, 1999, in addition to investment income. Benefit and the actuarially based contribution provisions are established by G.S. 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

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

3. LEGISLATIVE RETIREMENT SYSTEM

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

The benefit will not be payable while the member is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System or the Local Governmental Employees' Retirement System. The plan's benefits and administrative expenses are funded by member contributions of 7% of compensation and employer contributions of 22.58% of covered payroll for the period July 1, 1998 to June 30, 1999, in addition to investment income. Benefit and actuarially based contribution provisions are established by G.S. 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly.

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

NOTES TO THE FINANCIAL STATEMENTS

OTHER STATE ADMINISTERED SYSTEMS

The State also administers the following pension and retirement plans for persons who are not considered employees of the State or its component units.

4. FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

This plan is a defined benefit pension plan established by the State of North Carolina to provide pension benefits for all eligible firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 1999, there were 1,447 participating fire and rescue units. This is a special funding situation in that the State is not the employer but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by a \$10 monthly contribution by the member, investment income and an actuarially based state appropriation. Benefit and contribution provisions are established by G.S. 58-86 and may be amended only by the North Carolina General Assembly.

5. NATIONAL GUARD PENSION FUND

This plan is a defined benefit plan established by the State of North Carolina to provide pension benefits for members of the North Carolina national guard. This is also a special funding situation, because the State is not the employer but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by an actuarially based state appropriation and investment income. Benefit and contribution provisions are established by G.S. 127(a)-40 and may be amended only by the North Carolina General Assembly.

6. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities.

At June 30, 1999, the number of participating local governments was 851, as shown below:

Cities	390
Counties	100
Special districts	361

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. Employers contribute 5.27% of covered payroll for law enforcement officers and 4.80% for general employees and firemen for normal costs and an unfunded liability rate, which is established when the government initially enters the system. The State's responsibility is administrative only. Benefit and contribution provisions are established by G.S. 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

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

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

	<u>Teachers' and State Employees'</u>	<u>Judicial</u>	<u>Legislative</u>	<u>Firemen's, Rescue</u>	<u>National Guard</u>	<u>Local Governmental</u>
Employee Groups						
Retirees and beneficiaries currently receiving benefits	97,820	343	181	7,353	1,807	26,975
Terminated employees entitled to benefits but not yet receiving them	34,747	40	87	155	5,003	10,353
Active plan members	<u>278,558</u>	<u>478</u>	<u>167</u>	<u>26,820</u>	<u>6,596</u>	<u>108,904</u>
Total.....	<u>411,125</u>	<u>861</u>	<u>435</u>	<u>34,328</u>	<u>13,406</u>	<u>146,232</u>
Date of Valuation.....	12-31-98	12-31-98	12-31-98	6-30-98	12-31-98	12-31-98

NOTES TO THE FINANCIAL STATEMENTS**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS***BASIS OF ACCOUNTING*

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

INVESTMENTS

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains an investment pool in which the systems participate. The investment balance of each system represents its share of the fair value of the net assets of various portfolios within the pool. Additionally, the investment balance also includes assets occurring from securities lending transactions resulting from the systems' participation in the

pool. The investments of the State Treasurer are fully discussed in Note 4.

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

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 1998 (June 30, 1998, for Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress are presented by system in the required supplementary section of this report. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Cost Method</i>	<i>Amortization Method</i>	<i>Remaining Amortization Period</i>	<i>Period Open/Closed</i>	<i>Asset Valuation Method</i>	<i>Actuarial Assumptions</i>	
							<i>Investment Rate of Return</i>	<i>Projected Salary Increase</i>
Teachers' and State Employees'	12/31/98	Entry age	Level dollar	2 years	Open	5 year smoothed	7.25%	5.45-12.08%
Consolidated Judicial	12/31/98	Projected unit credit	Level percentage	14 years	Open	5 year smoothed	7.25%	5.63-12.58%
Legislative	12/31/98	Projected unit credit	Level dollar	None	Open	5 year smoothed	7.25%	7.50%
Firemen's, Rescue Squad Workers'	6/30/98	Entry age	Level dollar	5 years	Open	5 year smoothed	7.25%	N/A
National Guard	12/31/98	Entry age	Level dollar	6 years	Open	5 year smoothed	7.25%	N/A
Local Governmental Employees'	12/31/98	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 valuation for the Local Governmental Employees' system includes a 1.0% cost of living increase enacted by the General Assembly effective July 1, 1999. The valuations for the Teachers' and State Employees', Consolidated Judicial, and Legislative Retirement systems reflect legislation that authorized a 2.3% cost of living increase (also effective July 1, 1999) for retirees in these systems. 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

The annual required contributions for the fiscal year ended June 30, 1999, 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, 1996, the Legislative system was valued at December 31, 1997, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 1997. These valuations used amortization periods of 2 years for Teachers' and State Employees', 40 years for Consolidated Judicial, 8 years for National Guard and 4 years for the Firemen's and Rescue Squad Worker's Fund. The Local

Governmental Employees' system is an aggregate of numerous employers and consequently had various amortization periods. The contribution rates developed from these valuations assumed an investment return rate of 7.5% and basically the same salary increases as the most current valuations.

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 Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial and Legislative Retirement systems were amended effective July 1, 1998, to provide a 2.5% post-retirement benefit increase. Additional benefit enhancements increased the benefit accrual rate in the Local Governmental Employees' system from 1.76% to 1.77%. The liabilities for these enhancements were reflected in the December 31, 1997, individual systems' valuations or paid for with actuarial gains. Also effective July 1, 1998, the Firemen's and Rescue Squad Worker's Fund increased the monthly benefit from \$141 to \$146. The cost of this amendment was covered by gains developed during the 1997 plan year.

D. Annual Pension Cost and Net Pension Obligation

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

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 7,263,051	\$ 770,297	\$ 12,104,780	\$ 2,533,438
Interest on net pension obligation.....	—	(36,355)	—	—
Adjustment to annual required contribution.....	—	123,206	—	—
Annual pension cost.....	7,263,051	857,148	12,104,780	2,533,438
Contributions made.....	7,263,051	801,535	12,104,780	2,533,438
Increase (decrease) in net pension obligation.....		55,613		
Net pension (asset) obligation beginning of year....	—	(501,447)	—	—
Net pension (asset) obligation end of year.....	\$ —	\$ (445,834)	\$ —	\$ —

NOTES TO THE FINANCIAL STATEMENTS

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

**State of North Carolina's Annual Pension Cost (APC)
and Annual Required Contributions (ARC) as an Employer**
For the Years Ended June 30, 1997 through June 30, 1999 (in thousands)

	<u>Teachers' and State Employees'</u>	<u>Judicial</u>	<u>Legislative</u>	<u>Firemen's, Rescue</u>	<u>National Guard</u>
Primary Government:					
1999	\$ 174,028	\$ 7,263	\$ 857	\$ 12,105	\$ 2,533
1998	172,530	8,485	833	11,735	2,533
1997	170,342	7,976	840	11,735	2,303
Component units:					
Universities:					
1999	\$ 79,770				
1998	79,572				
1997	79,168				
Community Colleges:					
1999	\$ 29,772				
1998	28,953				
1997	28,432				
Proprietary Funds:					
1999	\$ 1,075				
1998	1,038				
1997	1,141				
Total Primary Government and Component Units:					
1999	\$ 284,645	\$ 7,263	\$ 857	\$ 12,105	\$ 2,533
1998	282,093	8,485	833	11,735	2,533
1997	279,083	7,976	840	11,735	2,303
Percentage of APC Contributed:					
1999		100%	94%	100%	100%
1998		100%	96%	100%	100%
1997		100%	95%	100%	100%
Percentage of ARC Contributed:					
1999	100%				
1998	100%				
1997	100%				
Net Pension (Asset) Obligation:					
1999		\$ —	\$ (446)	\$ —	\$ —
1998		—	(501)	—	—
1997		—	(534)	—	—

The pension liabilities for the transition year (1997) were determined in accordance with GASB 27. The prior year pension liability and current pension liability for all systems, except Legislative, are zero. Each year's APC and net pension asset for the Legislative System were calculated in accordance with GASB 27 back to 1993 and contain the cumulative effect of applying this statement.

NOTES TO THE FINANCIAL STATEMENTS
E. Optional Retirement Plan

The Optional Retirement Program (Program) is a defined contribution retirement plan which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in universities of the UNC system may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 1999, the Plan had 7,679 participants.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), Valic, 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 \$39,141,182 for the 1998-99 fiscal year. Annual covered payroll was \$572,239,497 and employer contributions expressed as a percentage of annual covered payroll were 6.84% for the fiscal year ended June 30, 1999. Employee contributions expressed as a percentage of annual covered payroll were 6%, with an actual employee contribution of \$34,334,370 for the 1998-99 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, 1999, the State and its component units paid \$7,220,781 for 621 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each state agency or paid from the component unit's operations for those employers who have eligible, retired law enforcement officers. These benefits are established in G.S. 143-166.41 and may be amended only by the General Assembly.

NOTE 10: DEFERRED COMPENSATION PLANS

IRC Section 457 Plan – General Statute 143B-426.24 authorized the creation of the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan (the Board). The Board was established as an agency of the State under the Department of Administration to offer the State's permanent employees, university employees, and the employees of certain other component units, a uniform Deferred Compensation Plan (the Plan) in accordance with Internal Revenue Code Section 457. The Plan permits each participating employee to defer a portion of his or her salary until future years by having the funds invested in various instruments that make up the North Carolina Public Employee Deferred Compensation Trust Fund. This fund is held in trust by the Plan for the exclusive benefit of participating employees and their beneficiaries. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the Plan. The Plan is reported in the CAFR as an expendable trust fund. All costs of administering and funding the Plan are the responsibility of the plan participants.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the Plan) in accordance with Internal Revenue Code Section 401(k). All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program are eligible to enroll in this plan and may contribute up to 20% (limited to \$10,000 in 1998) 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 fiscal year. The audited statements for the year ended December 31, 1998, are presented in this financial report as a pension trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan's financial statements are prepared using the accrual basis of accounting. Investments are reported at fair value. Securities

NOTES TO THE FINANCIAL STATEMENTS

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 plan is administered by the Branch Banking and Trust Company (BB&T) and the Plan's financial statements are available by contacting the N.C. 401(k) Plan, P.O. Box 29541, Raleigh, NC 27626.

In addition to the voluntary contribution criteria above, G.S. 143-166.30 requires state contributions to the Plan to provide benefits for all law enforcement officers employed by the State and its component units. G.S. 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive \$.50 for each court cost assessed and collected under G.S. 7A-304, while \$1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code restrictions limit the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 1998, 40 state agencies and component units along with 484 local governmental units outside our reporting entity contributed the required 5%. In addition, 240 local government employers contributed to the Plan on a voluntary basis.

At December 31, 1998, the Plan disclosed the following investments (at fair value) exceeding five percent of the Plan net assets:

BB&T Money Rate Savings Accounts	\$ 163,429,000
BB&T Bank Investment Contracts.....	322,715,000
Fidelity Equity-Income Fund.....	284,703,000
Fidelity Magellan Fund.....	771,928,000
Fidelity Spartan U.S. Equity	145,926,000

The Plan also reported total member contributions of \$121,130,000. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 1998, amounted to \$117,594,768 for the State, \$11,424,569 for universities, and \$822,096 for the other miscellaneous component units. The required 5% employer's contribution was made by the State for \$5,879,738, by universities for \$571,228, and by the remaining component units for \$41,105. In addition, the State contributed \$499,663 for the required court cost assessments.

IRC Section 403(b) Plans - Employees of the UNC system and community colleges can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). Generally all employees are eligible, but the IRC does allow the establishment of a minimum contribution of \$200 and the exclusion from participation of certain classes of employees. Each institution may exclude one or more of these classes if every employee within the institution meeting the class criteria is excluded from participation. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. Effective January 1, 1989, contributions may be withdrawn by employees only upon separation from service, death, disability, reaching age 59 1/2 or age 55 with qualifying retirement, or due to certain financial hardships. Currently, there is no restriction on the withdrawal of the value of annuity contracts. Custodial accounts established as of December 31, 1988 can be withdrawn only in respect to hardship established as of December 31, 1988. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. Since all contributions are made voluntarily by employees, all costs are borne by the plans' participants. No direct costs are incurred by the State.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 11: OTHER POSTEMPLOYMENT BENEFITS****A. Health Care for Long-Term Disability Beneficiaries and Retirees**

The State Health Plan provides postemployment health insurance to former employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units, and Local Education Agencies (LEAs) which are not part of the reporting entity. Those former employees who are eligible to receive health care as an other postemployment benefit are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the University Employees' Optional Retirement Program (UEORP), with five or more years of contributory membership service in the Retirement System prior to disability or retirement. For the fiscal year ended June 30, 1999, the number of participants currently eligible to receive health care as an other postemployment benefit are 40,702 TSERS and DIPNC members (excluding LEA members), 237 CJRS members, 126 LRS members, and 457 UEORP members. The health insurance plan is the same as for active employees as described in Note 12, except that the coverage becomes secondary when former employees become eligible for Medicare. These former employees are eligible to participate in either the self-funded Comprehensive Major Medical Plan (Plan) or one of the health maintenance organization (HMO) plans.

The funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. These health care benefits are funded by employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, participating component units, and LEAs contributed a monthly amount equal to 2.0% 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 and makes similar contributions for long-term disability beneficiaries and retirees enrolled in the HMO plans. Long-term disability beneficiaries and retirees pay for the additional cost of HMO coverage in excess of the Reserve's contribution and for the entire cost of coverage for their spouses and dependents. For the fiscal year ended June 30, 1999, the Reserve paid \$1,320.96 for each Medicare-eligible long-term disability beneficiary and retiree and \$1,735.20 for each non-Medicare-eligible long-term disability beneficiary and retiree. At June 30, 1999, the Reserve had net assets at fair value of \$297,660,636. The net assets are available for future benefit payments. For the fiscal year ended June 30, 1999, contributions on behalf of former employees of the reporting entity were made to the Reserve as follows:

Primary government	\$ 47,834,781
University of North Carolina system	32,792,381
Community colleges	8,024,679
Certain participating proprietary component units	<u>289,639</u>
Total contributions	<u>\$ 88,941,480</u>

These benefits are established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly.

B. Disability Income

As discussed in Note 12, short-term and long-term disability benefits are provided to the eligible members of the Teachers' and State Employees' Retirement System and the University Employees' Optional Retirement Program through the Disability Income Plan of North Carolina (DIPNC), an internal service 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.

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

NOTES TO THE FINANCIAL STATEMENTS

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. Disability income benefits are funded by employer contributions that are established in the Appropriations Bill by the General Assembly. For the calendar year ended December 31, 1998, 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, 1998, DIPNC had 2,210 members, excluding LEA members, who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 243,595 active plan participants. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

The basis for estimating the liabilities for unpaid claims is discussed in Note 12. The market related actuarial value of the assets of DIPNC at December 31, 1998, was \$176,946,348 creating a deficit of \$39,485,561. The fair value of the assets for DIPNC at December 31, 1998 was \$193,681,592. The assets are available for future other postemployment benefits and benefits for eligible active employees.

Actuarial Assumptions for the calendar year ended December 31, 1998:

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	\$22,502,404
Actual contribution made by:	
Primary Government	\$11,904,888
University of North Carolina system	8,503,451
Community Colleges	2,018,698
Certain participating proprietary component units	<u>75,367</u>
Total actual contribution made	<u>\$22,502,404</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool**1. Public School Insurance Fund**

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), which are not a part of the reporting entity. The community colleges, which are component units, can also acquire insurance through the Fund as stated in G.S. 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to carry extended coverage against fire and lightning damage to the extent of not less than seventy-five percent (75%) of the current insurable value for each insurable building. The boards also are to insure adequately the equipment and contents of said building. The Fund is financed by premiums collected from the LEAs and the community colleges and interest earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the State Board of Education a full and complete list of all outstanding fire insurance policies. While the said insurance policies remain in effect, the Fund shall act as coinsurer of the properties covered by such insurance. The Fund currently insures 103 out of 116 LEAs and 22 out of 58 community colleges.

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

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

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

	Fiscal Year	
	1999	1998
Unpaid claims at beginning of year	\$ 4,166	\$ 4,904
Incurred claims:		
Provision for insured events		
of the current year	4,916	5,510
Increases (decreases) in provision		
for insured events of prior years	(868)	(644)
Total incurred claims	<u>4,048</u>	<u>4,866</u>
Payments:		
Claims attributable to insured		
events of the current year	4,077	2,044
Claims attributable to insured		
events of the prior years	<u>2,825</u>	<u>3,560</u>
Total payments	<u>6,902</u>	<u>5,604</u>
Total unpaid claims at end		
of the year	<u>\$ 1,312</u>	<u>\$ 4,166</u>

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence (up to \$30 million per location) are covered by reinsurance policies. Total payments by the Fund over \$20 million a year (March 20, 1998 - March 20, 1999) are also paid by the reinsurers. Maximum recoverable from the reinsurers for any one catastrophe is \$1 billion per occurrence, or a \$300 million maximum on a flood or earthquake. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently there are claims recoverable from the reinsurers for an estimated \$357,000.

On September 15, 1999, Hurricane Floyd hit North Carolina affecting numerous counties within the State. Preliminary estimates of damages caused by the hurricane are in excess of \$12 million. Several counties have not yet been assessed and estimated damages are expected to increase.

NOTES TO THE FINANCIAL STATEMENTS**B. Employee Benefit Plans****1. State Health Plan**

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

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

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

	<i>Beginning of Fiscal Year</i>	<i>Current-Year Claims and Changes in</i>	<i>Claim</i>	<i>Balance at Fiscal</i>
	<i>Liability</i>	<i>Estimates</i>	<i>Payments</i>	<i>Year-End</i>
1997-98	\$ 111,334	\$ 643,915	\$ 643,544	\$ 111,705
1998-99	111,705	734,552	709,856	136,401

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, an internal service fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least one full calendar year of membership in the System. Membership includes employees of the State, the University of North Carolina system, community colleges, and certain participating proprietary component units and Local Education Agencies (LEAs) which are not part of the reporting entity. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest twelve month's salary in a row during the twenty-four months prior to his/her

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

Death benefits are funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina system, community colleges, and certain participating proprietary component units and LEAs contributed .16% of active employees' salaries to fund the Death Benefit Plan for the calendar year ended December 31, 1998.

These benefits are established by Chapter 135, Section 5(1), of the General Statutes and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	<i>Beginning of Fiscal Year</i>	<i>Current-Year Claims and Changes in</i>	<i>Claim</i>	<i>Balance at Fiscal</i>
	<i>Liability</i>	<i>Estimates</i>	<i>Payments</i>	<i>Year-End</i>
1997-98	\$ 2,420	\$ 22,301	\$ 22,441	\$ 2,280
1998-99	2,280	22,436	22,903	1,813

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), an internal service 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 11, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

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

NOTES TO THE FINANCIAL STATEMENTS

not in payment status. The IBNR liabilities are estimated based on the historical claims experience of DIPNC.

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

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1997-98	\$ 211,382	\$ 65,244	\$ 44,334	\$ 232,292
1998-99	232,292	31,061	46,921	216,432

C. Other Risk Management and Insurance Activities

1. Automobile, Fire and Other Property Losses

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first \$250,000 of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$250,000. The liability limits for losses incurring in-state are \$150,000 per claimant and \$5 million per occurrence. For losses incurring out-of-state, the limits are \$1 million per claimant and \$5 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

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

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses is free for all operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums discounted from industry manual rates. The Fund insures fire losses up to \$1.1 million per occurrence and extended coverage losses up to \$100,000 per building and

\$500,000 per occurrence, except for wind losses by named storms, which are covered up to 1% of the value for each location up to a maximum of \$3 million per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft, which carries a \$1,000 per occurrence deductible.

The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, other than wind losses by named storms, reach \$5 million in any one annual period, the Fund's deductible for the remainder of the annual period is \$100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Claims are paid when the Council of State approves the request for payment. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Claims payable at June 30, 1999 are disclosed on the balance sheet as a combination of claims payable of \$518 thousand, due to other funds of \$2.656 million, and due to component units of \$184 thousand. Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1997-98	\$ 2,551	\$ 324	\$ 2,255	\$ 620
1998-99	620	5,043	2,305	3,358

NOTES TO THE FINANCIAL STATEMENTS

2. Medical Malpractice Protection

a. Professional Liability Insurance for State Medical Personnel

All agencies of the State and participating component units are insured for tort claims up to \$150,000 under the authority of the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. Organizations within the reporting entity carry excess commercial liability insurance to supplement the coverage provided by the State Tort Claims Act; however, claims involving medical malpractice are generally excluded from this coverage. The University of North Carolina at Chapel Hill Medical School (UNC-CH Medical School) and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. All other universities purchase commercial liability insurance. Chapter 443, Section 11.32, of the 1997 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Correction to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of \$1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Correction purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

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

b. Self-Insurance through the Liability Insurance Trust Fund

The Liability Insurance Trust Fund (Trust Fund) was created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978, to provide medical malpractice protection for program participants and individual health care practitioners working as employees, agents, or officers of the program participants. The program participants are University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and the University of North Carolina at Chapel Hill Physicians

and Associates, both of whom are a part of the University of North Carolina system, which is a component unit of the reporting entity. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

Coverage is provided on an occurrence basis. The Trust Fund limits the coverage to \$3 million per occurrence and to \$8 million in the annual aggregate. Commercial excess insurance is purchased with \$25 million per occurrence and \$50 million annual aggregate retention limits provided above the self-insurance retentions (excluding UNC Hospitals). The Trust Fund purchased a primary policy for dental residents on a claims made basis with \$1 million per occurrence and \$3 million annual aggregate limits of coverage. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to \$30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liability of \$35,850,822 and \$33,557,782 is the present value of the aggregate actuarially determined claims liability of \$37,980,302 and \$35,897,811, discounted at rates ranging from 6% to 7%, at June 30, 1998 and 1999, 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
1997-98	\$ 30,868	\$ 8,911	\$ 3,928	\$ 35,851
1998-99	35,851	8,044	10,337	33,558

3. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides \$11 million excess insurance over the \$150,000 statutory limit payable for any one claim under the State Tort Claims Act. Since each state agency or component unit is responsible for funding any tort claims of \$150,000 or less from their budget, total claims liabilities are not measurable. Employers are charged a premium for the excess 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.

NOTES TO THE FINANCIAL STATEMENTS

4. Employee Dishonesty and Computer Fraud

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

5. Statewide Workers' Compensation Program

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

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

On April 1, 1996, the Workers' Compensation Cost Containment Pilot Project was developed by the Office of State Budget and Management and the Office of State Personnel by authority of Chapter 507, Section 11.1 of the 1995 Session Laws. Seventeen state agencies and universities volunteered to participate in the Project. A third-party administrator was selected in a bidding process to administer workers'

compensation claims for these seventeen agencies and universities. The seventeen agencies and universities contribute to a fund set up in the Office of the State Controller, which is administered by the Office of State Personnel, to cover their workers' compensation claims. During the fiscal year, the pilot project was deemed a success and the pilot status removed. A third party administrator was selected for the new program effective April 1999. 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. For the remainder of the fiscal year (April, May and June), participation was limited to the original pilot participants. Participation is mandatory for the remaining State agencies and institutions effective July 1, 1999 (with some exceptions). The workers' compensation cost of the seventeen agencies is included in the schedule below. For the other non-participating agencies and universities, each employer accepts or denies liability for the reporting entity and is responsible for monitoring and processing the claims. The employer is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act.

The State and its component units are self-insured for workers' compensation. 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 or component unit that sets up a reserve for claims. For the year ended June 30, 1999, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	\$ 38,192
University of North Carolina system	3,150
All other component units	<u>2</u>
Total	<u>\$ 41,344</u>

NOTES TO THE FINANCIAL STATEMENTS
6. Workers' Compensation Fund

The Workers' Compensation Fund (the Fund) is an insurance enterprise reported within the enterprise funds. The Fund is created in the Department of Insurance (the Department) and is administered by the State Fire and Rescue Commission (the Commission) through a service contract with a third-party administrator. In accordance with Chapter 58, Article 87, of the General Statutes, the purpose of the Program is to provide workers' compensation benefits to members of "eligible units," which consist of volunteer fire departments or volunteer rescue/EMS units that are not part of a unit of local government and are exempt from State income tax under G.S. 105-130.11. These eligible units are not part of the reporting entity. Benefits are payable for compensable injuries or deaths which occurred on or after July 1, 1996. The Fund is financed by appropriations made to the Department for this purpose and by per capita fixed dollar amounts for each member of a participating eligible unit's roster. The per capita fixed dollar amount is set annually by the Commission and is paid by the eligible units to the Commission on or before July 1 of each year for credit to the Fund. If payment is not received by July 1, the eligible unit shall not receive workers' compensation coverage for that fiscal year. The appropriation for the fiscal year ended June 30, 1999 was \$4.5 million. As of June 30, 1999, the Fund consisted of 1,152 eligible units representing approximately 36,035 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, 1999, there was no reduction for subrogation.

Acquisition costs consist of commission payments to independent insurance agents for marketing, promotional and administrative assistance with policy maintenance to eligible units. As coverage is renewed annually, acquisition costs are not amortized.

The Program maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Program's retention of \$350,000 per occurrence and a \$1 million limit for employer's liability above the Program's retention of \$350,000 per occurrence. The aggregate reinsurance provides for \$3 million of coverage above aggregate Program losses of \$4,427,159 for policy year 1998-1999. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 1999, there are claims recoverable from reinsurers in the amount of \$829,967.

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

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1997-98	\$ 2,962	\$ 3,144	\$ 1,248	\$ 4,858
1998-99	4,858	3,568	2,025	6,401

NOTES TO THE FINANCIAL STATEMENTS

7. Health Insurance Program for Children

The Health Insurance Program for Children (the Program) is an insurance enterprise reported within the enterprise funds. The Program was created by Chapter 108A, Article 2, Part 8, of the General Statutes to provide comprehensive health insurance coverage to uninsured low-income children who are residents of this State. Health benefits coverage provided to children eligible under the Program is equivalent to coverage provided for dependents under the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan (the Plan) which is discussed in part B.1. of this note. In addition to the benefits provided under the Plan, the Program also provides coverage for dental, hearing, and vision services and supplies.

Coverage is provided from federal funds received, State funds appropriated, and other nonappropriated funds made available for this purpose. All appropriations, allocations, premium receipts, or any other receipts, including earnings on investments, occurring or arising in connection with acute medical care benefits provided under the Program are deposited into the Child Health Insurance Fund (the Fund). Disbursements from the Fund include any and all amounts required to pay the benefits and administrative costs of the Program. For the fiscal year ended June 30, 1999, \$15,617,822 was appropriated from the General Fund to the North Carolina Department of Health and Human Services (DHHS) to be used for the Program.

The Program is administered by DHHS. Eligible children may be enrolled by DHHS based on the availability of funds. The Plan is responsible for the administration and processing of claims for benefits under the Program, as provided under Chapter 135, Article 3, Part 5 of the General Statutes. The Plan's self-insured indemnity program shall not incur any financial obligations for the program in excess of the amount of funds that the Plan's self-insured indemnity program receives for the program.

Annual enrollment fees, copayments, or other cost-sharing charges are determined by family income. However, there are no enrollment fees, deductibles, copayments, or other cost-sharing charges for families covered under the Program whose family income is at or below 150% of the federal poverty level. A family's total annual aggregate cost-sharing charges shall not exceed five percent of the family's income for the year involved. As of June 30, 1999, 43,331 children were insured under the Program.

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

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1998-99	\$ —	\$ 22,407	\$ 16,193	\$ 6,214

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the State's enterprise funds for the year ended June 30, 1999 is presented below (dollars in thousands).

	<i>Public School Insurance</i>	<i>Child Health Insurance Program</i>	<i>N.C. State Fair</i>	<i>USS North Carolina Battleship Commission</i>	<i>Agricultural Farmers Market</i>	<i>Workers' Comp.</i>	<i>Indian Cultural Tourist Center</i>	<i>Other Funds</i>	<i>Total</i>
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	
Operating revenues.....	\$ 6,967	\$ 217	\$ 8,608	\$ 2,217	\$ 844	\$ 2,212	\$ 4	\$ 1,355	\$ 22,424
Depreciation/amortization.....	—	—	595	190	623	—	11	64	1,483
Operating income (loss).....	(469)	(25,232)	1,051	168	(653)	(2,452)	(7)	(105)	(27,699)
Operating transfers in.....	—	27,582	—	—	120	—	—	205	27,907
Operating transfers (out).....	—	—	(1,279)	—	(2)	—	—	—	(1,281)
Net income (loss).....	(469)	2,350	(169)	732	(496)	(2,452)	(7)	152	(359)
Current capital contribution...	—	—	57	200	22	4,500	—	—	4,779
Fixed assets:									
Additions.....	—	—	44	155	38	—	—	84	321
Deletions.....	—	—	—	8	—	—	—	—	8
Current assets.....	46,408	13,979	5,193	3,253	803	17,229	32	586	87,483
Current liabilities.....	15,496	11,629	716	127	62	10,095	—	52	38,177
Net working capital.....	30,912	2,350	4,477	3,126	741	7,134	32	534	49,306
Total assets.....	46,408	13,979	13,385	5,337	10,287	17,229	500	2,421	109,546
Total equity (deficit).....	30,912	2,350	12,669	5,210	10,225	7,134	500	2,369	71,369

Principal enterprise fund activities:

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: COMPONENT UNITS — CONDENSED FINANCIAL INFORMATION

Condensed financial statements for the component unit funds as of and for the fiscal year ended June 30, 1999 are presented below (dollars in thousands).

Condensed Balance Sheet Component Units - Proprietary Funds

	N.C.		State		N.C.		North		N.C. Low		N.C.		Other Component Units	Total Proprietary Component Units
	Housing Finance Agency	Education Assistance Authority	State Ports Authority	Carolina Railroad Company	Level Radio- Active Waste Management Authority	Radio- Global TransPark Authority	MCNC	Global TransPark Authority	MCNC	MCNC				
Current assets														
Due from primary government.....	\$ —	\$ 14,531	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14,531
Other.....	44,318	555,454	43,895	6,198	450	31,384	9,267	85,325	776,291					
Non-current assets.....	1,138,456	528,810	193	—	—	—	460	4,364	1,672,283					
Fixed assets.....	448	974	122,063	7,861	—	26,363	9,965	9,054	176,728					
Total Assets.....	<u>\$ 1,183,222</u>	<u>\$ 1,099,769</u>	<u>\$ 166,151</u>	<u>\$ 14,059</u>	<u>\$ 450</u>	<u>\$ 57,747</u>	<u>\$ 19,692</u>	<u>\$ 98,743</u>	<u>\$ 2,639,833</u>					
Current liabilities														
Due to primary government.....	\$ 3	\$ —	\$ —	\$ 1,843	\$ —	\$ 710	\$ —	\$ 6,330	\$ 8,886					
Other.....	114,037	134,567	4,521	1,088	235	4,907	8,231	19,671	287,257					
Long-term liabilities														
Advance from primary government.....	—	—	—	61,000	—	25,000	—	—	86,000					
Bonds payable.....	924,005	521,477	11,760	—	—	—	—	—	1,457,242					
Other.....	—	10,922	614	—	—	—	1,726	5,588	18,850					
Fund equity.....	145,177	432,803	149,256	(49,872)	215	27,130	9,735	67,154	781,598					
Total liabilities and fund equity.....	<u>\$ 1,183,222</u>	<u>\$ 1,099,769</u>	<u>\$ 166,151</u>	<u>\$ 14,059</u>	<u>\$ 450</u>	<u>\$ 57,747</u>	<u>\$ 19,692</u>	<u>\$ 98,743</u>	<u>\$ 2,639,833</u>					

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

	N.C.		State		N.C.		North		N.C. Low		N.C.		Other Component Units	Total Proprietary Component Units
	Housing Finance Agency	Education Assistance Authority	State Ports Authority	Carolina Railroad Company	Level Radio- Active Waste Management Authority	Radio- Global TransPark Authority	MCNC	Global TransPark Authority	MCNC					
Operating revenues.....	\$ 83,514	\$ 64,066	\$ 28,119	\$ 2,132	\$ —	\$ 337	\$ 36,241	\$ 10,695	\$ 225,104					
Operating expenses														
Depreciation/amortization.....	153	468	7,557	9	—	377	—	708	9,272					
All other.....	73,311	58,141	20,746	1,417	—	2,022	38,917	12,024	206,578					
Operating income.....	10,050	5,457	(184)	706	—	(2,062)	(2,676)	(2,037)	9,254					
Operating transfers from component units.....	—	12,002	—	—	—	—	—	—	12,002					
Operating transfers from primary government.....	2,300	14,531	—	—	—	8,446	4,500	108,010	137,787					
Operating transfers to primary government.....	(51)	—	(1)	—	—	—	—	—	(52)					
Other nonoperating revenues (expenses).....	—	645	364	(2,128)	(621)	3,421	(912)	(85,039)	(84,270)					
Net income (loss).....	12,299	32,635	179	(1,422)	(621)	9,805	912	20,934	74,721					
Excess of revenues over (under) expenditures over governmental operations.....	(148)	—	—	—	—	—	—	—	(148)					
Fund equity - July 1.....	133,026	405,626	135,312	(44,557)	(49,564)	2,128	10,909	63,763	656,643					
Other changes in equity.....	—	(5,458)	13,765	(3,893)	50,400	15,197	(2,086)	(17,543)	50,382					
Fund equity - June 30.....	<u>\$ 145,177</u>	<u>\$ 432,803</u>	<u>\$ 149,256</u>	<u>\$ (49,872)</u>	<u>\$ 215</u>	<u>\$ 27,130</u>	<u>\$ 9,735</u>	<u>\$ 67,154</u>	<u>\$ 781,598</u>					

NOTES TO THE FINANCIAL STATEMENTS

Condensed Balance Sheet
Component Units - College and University Funds

	<i>University Funds</i>	<i>Community Colleges Funds</i>	<i>Total College and University Funds</i>
Assets			
Due from other funds.....	\$ 60,901	\$ 528	\$ 61,429
Due from component units.....	1,022	—	1,022
Due from primary government.....	13,819	28,898	42,717
Fixed assets.....	5,020,923	1,226,763	6,247,686
Other.....	4,443,467	224,866	4,668,333
Total assets.....	\$ 9,540,132	\$ 1,481,055	\$ 11,021,187
Liabilities			
Due to other funds.....	\$ 60,901	\$ 528	\$ 61,429
Due to component units.....	1,022	—	1,022
Due to primary government.....	1,422	3,125	4,547
Bonds payable.....	897,654	—	897,654
Notes payable.....	18,892	1,271	20,163
Other.....	1,391,962	85,349	1,477,311
Total liabilities.....	2,371,853	90,273	2,462,126
Fund equity			
Total fund equity.....	7,168,279	1,390,782	8,559,061
Total liabilities and fund equity.....	\$ 9,540,132	\$ 1,481,055	\$ 11,021,187

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

	<i>University Funds</i>	<i>Community Colleges Funds</i>	<i>Total College and University Funds</i>
Revenues.....	\$ 3,219,200	\$ 461,465	\$ 3,680,665
Expenditures.....	4,450,089	1,047,395	5,497,484
Operating transfers from primary government.....	1,799,860	652,597	2,452,457
Operating transfers to primary government.....	(20,332)	—	(20,332)
Operating transfers to component units.....	(12,002)	—	(12,002)
Net increase in fund equity.....	536,637	66,667	603,304
Fund equity - July 1.....	6,523,755	1,322,792	7,846,547
Other changes in equity.....	107,887	1,323	109,210
Fund equity - June 30.....	\$ 7,168,279	\$ 1,390,782	\$ 8,559,061

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

	<i>University Funds</i>	<i>Community Colleges Funds</i>	<i>Total College and University Funds</i>
Revenues.....	\$ 2,171,618	\$ 277,030	\$ 2,448,648
Expenditures.....	3,545,136	878,266	4,423,402
Transfers and Additions (Deductions):			
Excess of restricted receipts over transfers to revenues.....	10,526	1,445	11,971
Refunded to grantors.....	(1,354)	—	(1,354)
Mandatory transfers.....	(61,874)	(3)	(61,877)
Non-mandatory transfers.....	(39,132)	(2,568)	(41,700)
Interinstitutional transfers.....	(2,338)	—	(2,338)
Operating transfers from primary government.....	1,580,716	605,305	2,186,021
Operating transfers to primary government.....	(1,549)	—	(1,549)
Operating transfers to component units.....	(12,002)	—	(12,002)
Net increase in fund equity.....	\$ 99,475	\$ 2,943	\$ 102,418

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: RESERVED AND UNRESERVED DESIGNATED FUND BALANCES

The State and its component units' reserved fund balances represent those portions of fund balance that are (1) not available for appropriation or expenditure, which includes loans receivable and long-term portion of advances to other funds, or (2) fund balances that are legally segregated for a specific use. The primary government's reserved fund balances at June 30, 1999, are (dollars in thousands):

	Governmental Fund Types			Fiduciary Funds				
	General	Special Revenue	Capital Projects	Expendable Trust	Non-expendable Trust	Pension Trust	Investment Trust	Fiduciary Totals
Inventories.....	\$ 48,105	\$ 30,598	\$ —	\$ 1,245	\$ —	\$ —	\$ —	\$ 1,245
Reserved for specific encumbrances.....	465,366	14,228	—	—	—	—	—	—
Retirees' health premiums.....	297,661	—	—	—	—	—	—	—
Energy conservation.....	—	—	—	1,856	—	—	—	1,856
Investments.....	51	—	—	—	—	—	—	—
Other purposes.....	—	1,230	—	635	26	—	—	661
Medicaid programs.....	162,272	—	—	—	—	—	—	—
Continuing programs.....	46,287	—	—	—	—	—	—	—
Contributions.....	990	—	—	—	—	—	—	—
Advances to component units.....	61,000	—	—	25,000	—	—	—	25,000
Intangible tax refunds.....	1,561	—	—	—	—	—	—	—
Federal retirees' refund account.....	287	—	—	—	—	—	—	—
Vacation, sick leave.....	—	30,129	—	—	—	—	—	—
Notes receivable.....	497	111,095	—	—	259,543	—	—	259,543
Prepaid items.....	—	386	—	—	—	—	—	—
Capital projects.....	—	—	82,076	—	—	—	—	—
Claims and benefits.....	—	—	—	569,952	—	—	—	569,952
Loan and grant commitments.....	—	705,698	—	9,695	112,238	—	—	121,933
Abandoned property.....	—	—	—	204,806	—	—	—	204,806
Political parties.....	—	—	—	125	—	—	—	125
Wildlife endowment.....	—	—	—	—	41,318	—	—	41,318
Investment pool participants.....	—	—	—	—	—	—	746,005	746,005
Employees' pension benefits.....	—	—	—	—	—	56,272,203	—	56,272,203
Total Fund Balances								
Reserved.....	<u>\$ 1,084,077</u>	<u>\$ 893,364</u>	<u>\$ 82,076</u>	<u>\$ 813,314</u>	<u>\$ 413,125</u>	<u>\$ 56,272,203</u>	<u>\$ 746,005</u>	<u>\$ 58,244,647</u>

The State's unreserved fund balance designations in the General Fund represent tentative plans for use in a future period. These fund balance designations were reported as reserves in prior years. For fiscal year 1998-99, the State changed its accounting policy to only report reserves in connection with restrictions imposed by parties outside of the financial reporting entity. Since the State's internal governing body established the restrictions on the use of these assets, they are now 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. These designations totaled \$269.651 million. As shown in the table below, the fund balance available to be designated totaled only \$60.053 million on a modified accrual basis (dollars in thousands):

Unreserved Designated Fund Balance	
	<u>General Fund</u>
Repairs and renovations.....	\$ 164,683
Clean Water Management Trust Fund.....	31,054
Disproportionate share.....	19,552
Aquariums.....	30,000
Work First.....	17,362
Capital projects.....	7,000
Total designations.....	<u>\$ 269,651</u>
Unreserved fund balance, Exhibit A-1.....	<u>\$ 60,053</u>

The component units' reserved fund balances at June 30, 1999, are (dollars in thousands):

Restricted Funds	Total College and University Funds		
	<u>University</u>	<u>Community Colleges</u>	<u>Funds</u>
Loans.....	\$ 98,266	\$ 992	\$ 99,258
Endowments.....	837,429	16,644	854,073
Revenue bonds.....	71,749	—	71,749
Restricted funds.....	<u>648,444</u>	<u>104,250</u>	<u>752,694</u>
Total Fund Balances Reserved.....	<u>\$ 1,655,888</u>	<u>\$ 121,886</u>	<u>\$ 1,777,774</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

As a result of review during the current reporting period, certain funds were reclassified from their June 30, 1998 presentation to more appropriate fund types. The effects of these reclassifications appear in the "Entity Changes/Fund Reclassification" column. Some fund equity balances as of July 1, 1998, are restated for certain accounting changes or adjusted for the correction of errors in the reported balances of the fiscal year ended June 30, 1998. These changes are shown in the "Prior Year Adjustments and Restatements" column. On April 1, 1998, the State loaned \$61 million to the North Carolina Railroad Company (Railroad), a component unit of the State, for the purpose of acquiring the Railroad's non-State owned shares of outstanding common stock. The Railroad's acquisition of its outstanding shares of common stock resulted in a \$58.432 million reduction of its fund equity as of July 1, 1998. The following table summarizes the above changes as they appear in the accompanying financial statements (dollars in thousands).

	June 30, 1998 Fund Equity as Previously Reported	Entity Changes/ Fund Reclass- ification	Acquisition of Treasury Stock	July 1, 1998 Fund Equity as Reported	Prior Year Adjustments/ Restatements	July 1, 1998 Fund Equity as Restated
Primary Government						
General Fund.....	\$ 1,664,650	\$ 137	\$ —	\$ 1,664,787	\$ (953)	\$ 1,663,834
Special Revenue.....	2,484,573	(136)	—	2,484,437	52,691	2,537,128
Capital Projects.....	258,584	—	—	258,584	3,506	262,090
Enterprise.....	68,712	—	—	68,712	(1,763)	66,949
Internal Service.....	654,433	—	—	654,433	135	654,568
Expendable Trust Funds.....	3,752,949	(1,469,770)	—	2,283,179	15,771	2,298,950
Nonexpendable Trust Funds.....	412,052	(1)	—	412,051	(27)	412,024
Pension Trust Funds.....	49,334,679	1,469,770	—	50,804,449	—	50,804,449
Investment Trust Fund.....	306,610	—	—	306,610	35,804	342,414
Total Primary Government.....	58,937,242	—	—	58,937,242	105,164	59,042,406
Component Units						
Proprietary Funds.....	790,065	(74,990)	(58,432)	656,643	6,911	663,554
College and University:						
University funds.....	6,523,755	—	—	6,523,755	107,978	6,631,733
Community colleges funds.....	1,325,683	(2,891)	—	1,322,792	1,323	1,324,115
Total Component Units.....	8,639,503	(77,881)	(58,432)	8,503,190	116,212	8,619,402
Total Reporting Entity.....	\$ 67,576,745	\$ (77,881)	\$ (58,432)	\$ 67,440,432	\$ 221,376	\$ 67,661,808

NOTE 17: RESIDUAL EQUITY TRANSFERS

Residual equity transfers out exceed residual equity transfers in by \$51.943 million due to the following transactions: (1) \$8.015 million transferred out from the Capital Projects Fund and \$5.750 million transferred out from the General Fund to the State Ports Authority (Proprietary Component Unit), recorded by the Authority as an increase in contributed capital. (2) \$4.5 million transferred out from the General Fund to the Workers' Compensation Fund (Enterprise Fund) recorded by the Workers' Compensation Fund as an increase in contributed capital. (3) \$33.599 million transferred out from the General Fund to the N.C. Low Level Radioactive Waste Management Authority (Proprietary Component Unit), recorded by the Authority as an increase in contributed capital. (4) \$57 thousand transferred out of the Capital Projects Fund to the N.C. State Fair (Enterprise Fund), recorded by the Fair as an increase in contributed capital. (5) \$22 thousand transferred out of the Capital Projects Fund to the Agricultural Farmers Market (Enterprise Fund), recorded by the Market as an increase in contributed capital.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2029, the outstanding principal of such bonds and notes as of June 30, 1999, was \$3.4 billion with interest rates varying from 2.30 % to 8.00 %.

The State, by action of the General Assembly, created the North Carolina Educational Facilities Finance Agency which is authorized to issue tax-exempt bonds and notes to finance facilities and structures at private institutions of elementary, secondary, and postsecondary education. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2028, the outstanding principal of such bonds and notes as of June 30, 1999, was \$598.7 million with variable interest rates.

The State, by action of the General Assembly, created the North Carolina Industrial Facilities and Pollution Control Financing Authority which is authorized to issue tax-exempt bonds and notes to provide funds to be loaned by the Authority to finance industrial and manufacturing facilities, pollution control facilities for industry (in connection with manufacturing) where there is a favorable impact on employment or pollution control commensurate with the size and cost of the facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2009, the outstanding principal of such bonds and notes as of June 30, 1999, was \$7.9 million with variable interest rates.

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 is set for September 1999. The North Carolina Attorney General's Office believes that sound legal arguments support the State's position on the outstanding claims.

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

In 1995, a group of federal government retirees filed *Patton, et al. v. North Carolina, et al.*, a class action tax refund lawsuit seeking refunds of State taxes paid on federal pension income since tax year 1989. The *Patton* plaintiffs claimed that if the *Bailey* plaintiffs prevailed on their refund claims, then the disparity of tax treatment accorded state and federal pension income held unconstitutional in *Davis v. Michigan* (1989) would be reestablished. In *Davis*, the United States Supreme

NOTES TO THE FINANCIAL STATEMENTS

Court ruled that a Michigan income tax statute that taxed federal retirement benefits while exempting those paid by state and local governments violated the constitutional doctrine of intergovernmental tax immunity. At the time of the *Davis* decision, North Carolina law contained similar exemptions in favor of State and local government retirees. The repeal of those exemptions in 1989 resulted in the *Bailey* case.

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

Smith v. State and Shaver v. State — State Tax Refunds -- Intangibles Tax. The *Smith* case is a class action tax refund lawsuit related to litigation in *Fulton Corporation v. Faulkner*, a case filed by a single taxpayer and decided by the United States Supreme Court in 1996 regarding the constitutionality of intangibles taxes previously collected by the State on shares of stock. On July 7, 1995, while the *Fulton* case was pending before the United States Supreme Court, the *Smith* class action was commenced in North Carolina Superior Court on behalf of all taxpayers who paid the tax and complied with the requirements of the applicable tax refund statute, G.S. § 105-267, including its 30-day demand requirement. These original plaintiffs were later designated Class A when a second group of taxpayers were added. The new class, designated Class B, consisted of taxpayers who had paid the tax but failed to comply with the refund statute's 30-day demand requirement. On June 11, 1997, judgment was entered awarding the Class A plaintiffs refunds totaling \$120 million, with interest, and these refunds have been paid. In a separate order also entered on June 11, 1997, Class B was decertified and the refund claims of Class B taxpayers were dismissed. Class counsel appealed the Class B decertification/dismissal order, and on December 4, 1998, the North Carolina Supreme Court reversed the dismissal. As a result of the *Smith* decision, the State will be required to pay refunds to Class B intangibles taxpayers. The State estimates that its liability for tax refunds, with interest through June 30, 1999, will be approximately \$350 million.

A second class action tax refund lawsuit, *Shaver, et al. v. North Carolina, et al.*, was filed on January 16, 1998, by the same taxpayers as Class B plaintiffs in *Smith* under alternative theories of recovery for tax years 1991 through 1994 and for refunds for one additional tax year, 1990. Their additional claim for 1990 totals approximately \$100 million. A Settlement Agreement was executed on July 8, 1999, and a Consent Order Tentatively Approving Settlement was executed and signed by the presiding Judge the same day. Pursuant to the Settlement Agreement and the Consent Order, the State will pay the sum of \$200 million on October 1, 1999, and the sum of \$240 million no later than July 10, 2000 to distribute refunds to *Smith* Class B taxpayers for tax years 1991 through 1994 and to *Shaver* taxpayers for tax year 1990. (The settlement does not affect *Smith* Class A taxpayers because they have already been paid refunds). On September 24, 1999, the Court conducted a fairness hearing and entered an order approving the Class Action Settlement. In order to achieve the final consummation of the settlement, the General Assembly must appropriate the \$240 million balance for the 2000-2001 fiscal year. The settlement fixes the State's liability for these claims and should complete the litigation over North Carolina intangibles taxes paid on shares of stock.

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

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

Faulkenbury v. Teachers' and State Employees' Retirement System, Peele v. Teachers' and State Employees' Retirement System, and Woodard v. Local Governmental Employees' Retirement System — Disability Retirement Benefits. 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

NOTES TO THE FINANCIAL STATEMENTS

damages and higher prospective benefit payments to the plaintiffs and class members would amount to \$407 million. Calculations and payments so far indicate that retroactive benefits will be significantly less than estimated, depending in part on the pending appeal. Payments have been made by the State of approximately \$83 million. A liability of \$43.5 million for the retroactive benefits has been booked in the Teachers' and State Employees Retirement System.

Southeast Compact Commission — Disposal of Low-level Radioactive Waste. North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997 the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact recently voted to pursue sanctions against North Carolina, including the repayment, with interest, by the State to the Compact Commission of \$80 million of Compact member payments expended on the permitting of the site.

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

Ford Motor Credit v. State and Chrysler Credit v. State. — Installment Paper Dealer Tax. The plaintiffs purchased dealer installment sales contracts from automobile manufacturers that had financed new car inventories for automobile dealers in North Carolina. The Department of Revenue issued assessments against the plaintiffs, claiming that the purchase of the dealer's installment sales contracts was subject to the state of North Carolina's installment paper tax. The plaintiffs paid the tax assessments then sued the Department demanding refunds. A judgement was entered against the Department of Revenue for both cases. The combined liability is slightly over \$50 million. The Department has appealed both cases. The issue raised by these cases is not expected to arise again with these taxpayers or any other taxpayers.

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

C. Federal Grants

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being ap-

propriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies, although it is believed that disallowances, if any, will be immaterial.

D. Highway Construction

The State may be liable for approximately \$87.6 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional \$53.4 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 \$19.7 million.

E. USDA-Donated Commodities

The State has custodial responsibility for \$2.7 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, 1999, the State had commitments of \$1,231.4 million for construction of highway facilities. Of this amount, \$975.6 million relates to the Highway Fund, and \$255.8 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$268.8 million (including \$185.5 million for the Department of Environment and Natural Resources, \$19.4 million for the Department of Health and Human Services, and \$18.5 million for the Department of Correction).

At June 30, 1999, the University of North Carolina system (component unit) had outstanding construction commitments of \$201.5 million (including \$45.3 million for UNC Hospitals, \$26.9 million for University of North Carolina - Chapel Hill, and \$20.3 million for Appalachian State University).

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 1999, community colleges (component units) had outstanding construction commitments of \$13.3 million (including \$1.9 million for College of the Albemarle and \$1.4 million for Blue Ridge Community College).

At June 30, 1999, proprietary component units had outstanding commitments of \$25.9 million (including \$16.4 million for State Education Assistance Authority and \$8.6 million for State Ports Authority).

NOTE 19: SUBSEQUENT EVENTS

Hurricane Floyd. On September 15, 1999, Hurricane Floyd hit North Carolina affecting numerous counties within the state. Hurricane Floyd brought 15 inches of rain to an area already saturated by Hurricane Dennis in late August. This disaster met or exceeded the 500-year flood plain for many communities in the eastern part of the State. Hurricane Floyd resulted in 48 confirmed fatalities, flooded approximately 30,000 homes, caused massive damages to the state's infrastructure temporarily closing over 1,000 roads, and caused over a \$1.5 billion in agricultural losses. Early estimates of storm damage from Hurricane Floyd are in the range of \$2.2 billion. Federal Emergency Management Agency matching requirements may approach \$288 million.

North Carolina General Obligation Bonds. In September 1999, the State sold \$200 million of general obligation bonds. On September 8, 1999, the State sold \$177.4 million Public Improvement Bonds, Series 1999A (tax-exempt interest). The Series 1999A bonds will be dated September 1, 1999, and will mature, subject to the redemption provisions annually, March 1, \$6 million, 2001 to 2007, inclusive, \$9.5 million, 2008 to 2017, inclusive, \$24 million 2018 and \$16.4 million, 2019. The State also sold on September 8, 1999 \$20 million Public Improvement Bonds, Series 1999B (federally taxable interest). The Series 1999B bonds will be dated September 1, 1999, will bear interest from that date, payable on each March 1 and September 1, beginning March 1, 2000, and will mature annually, March 1, \$2.85 million 2001 to 2006, inclusive, and \$2.9 million, 2007. On September 29, 1999, the State sold \$2.6 million Public Improvement Bonds, Series 1999C (tax-exempt interest). The Series 1999C bonds will be dated October 1, 1999, will bear interest from that date, payable on each March 1 and September 1, beginning March 1, 2000, and will mature annually, March 1, \$375,000, 2001 to 2006, inclusive, and \$350,000, 2007.

North Carolina Housing Finance Agency. During July 1999, the Agency issued \$55 million Home Ownership Revenue Bonds (1998 Resolution), Series 5, with rates ranging from 4.15% to 5.3%.

University of North Carolina at Chapel Hill. On August 31, 1999 the University entered into a loan agreement with First Union National Bank. Loan proceeds in the amount of \$9,374,000 will provide a portion of the funds necessary for the acquisition and construction of a Neuroscience Building on campus. The total loan amount may increase to \$12 million if a resolution of the Board of Governors authorizes an additional

\$2,626,000 for the project. Principal and interest will be paid from non-appropriated funds.

North Carolina State University. On July 24, 1998, the University signed a commitment letter with Bank of America in the amount of \$14 million to fund the cost of construction of the Partners III Building and a parking deck on Centennial Campus. There has been no money drawn to date.

On July 15, 1997 the University entered into a Promissory Note with First Union National Bank for advances of up to \$9.56 million to fund the cost of construction of Partner's II Building on Centennial Campus. As of June 30, 1999, \$5.68 million remains outstanding. The University intends to issue 1999A variable rate tax-exempt revenue bonds for approximately \$13.5 million to discharge in part the loan from First Union National Bank, to fund the construction and equipping of Partners II Building, to relocate the utility easements, and to pay the cost incurred in connection with issuance of the 1999A bonds. The University also intends to issue 1999B fixed rate bonds for approximately \$2.2 million with Bank of America to discharge in part the loan from First Union National Bank, to fund the construction and equipping of Partners II Building and to pay the cost incurred in connection with the issuance of the 1999B bonds. The expected closing date is September 22, 1999.

East Carolina University. On July 13, 1999 the University sold \$3.5 million in Student Fee Revenue Bonds, Series 1999, with rates ranging from 4.75% to 5.25%. The bonds were issued to provide funds to pay the cost of the renovation of and an addition to the Student Health Center on the campus and to pay related financing costs.

Anson Community College. The College was abolished by State legislation to form a new, regional community college to serve Anson and Union counties. This new College was named South Piedmont Community College on August 3, 1999. The new college immediately assumed all assets and liabilities of Anson Community College on July 1, 1999. The President of the new college is the same as was President of Anson Community College, and all employees remained employed. Essentially, the service area was enlarged and the name was changed to reflect that.

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REQUIRED
SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 ISSUES

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately, many programs (if not corrected) will not be able to distinguish between the Year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is the leap year calculation. Some programs are unable to detect the Year 2000 as a leap year.

All information systems in North Carolina that use dates to generate data will be affected by the new millennium: for example, kindergarten registration and blood supply could be affected. In addition, non-information systems such as forms need to be evaluated because they provide input to software applications. Mail processing equipment may need to be modified to handle the new millennium. Other areas such as elevators, security systems, and vaults will be affected by the Year 2000.

In early 1997, the Year 2000 Project Team (including a statewide Steering Committee and agency co-ordinators) was formed to manage the Year 2000 project from a statewide perspective. The Year 2000 Project Team is responsible for prioritizing systems statewide, developing and maintaining statewide conversion schedules, analyzing third-party product compliance, maintaining a statewide Year 2000 repository, defining the overall conversion approach and milestones, reporting the status of statewide conversion projects, providing statewide communications and coordination, reporting the status of statewide Year 2000 funding and use, reporting the status of statewide quality assurance, developing and maintaining a statewide risk management plan, coordinating the Year 2000 budget process, maintaining an evolving cost estimate, and analyzing the automated tool offerings.

The executive departments, universities, university hospitals, and community colleges are responsible for completing the Year 2000 conversion efforts in their areas. They will work within the framework set forth by the Year 2000 Steering Committee and carried through by the Statewide Year 2000 Project Team.

As of year-end, the State has contracted with several vendors for assistance in addressing the Year 2000 issues relating to its computer systems and other electronic equipment. The amount of those commitments is approximately \$131 million.

The following stages have been identified as necessary to address the Year 2000 issue.

Awareness Stage—Encompasses establishing a budget and project plan (for example, a timeline or chart noting major tasks and due dates) for dealing with the Year 2000 issue.

Assessment Stage—When the organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. An organization may decide to review all system components or, through a risk analysis, identify only mission-critical systems (systems and equipment critical to conducting operations).

Remediation Stage—When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to address Year 2000 system or equipment issues, and the required system changes are made.

Validation/Testing Stage—When the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

As of June 30, 1999, 1,093 application systems existed in the statewide inventory. Of those, 399 were reported by the agencies and universities as Year 2000 ready without remediation. The remaining 694 systems are in the following phases of remediation: 16 are in the assessment stage; 35 are in the remediation stage; 102 are in the validation/testing stage; and 541 have been fully remediated and placed back into production. The systems that have yet to be fully remediated have been grouped by function in the following table.

<u>Functional Category</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation/ Testing</u>
General government	1	2	11
Education	10	5	4
Health and human services ..	—	3	19
Economic development	—	—	4
Environment and natural resources	1	1	8
Public safety, corrections, and regulation	1	5	5
Transportation	—	—	7
Agriculture	—	2	3
Universities	3	17	41
Total	<u>16</u>	<u>35</u>	<u>102</u>

REQUIRED SUPPLEMENTARY INFORMATION

The assessment process for computer systems is continuous and ongoing. The Year 2000 Project Team is also working with agencies and universities to address Year 2000 readiness issues in the other following areas: PC/LAN hardware and software, workplace infrastructure (facilities, telephones), embedded chips (medical/lab equipment, transportation vehicles, enforcement systems), supply chain partners, and business continuity planning.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the State and its component units are or will be Year 2000 ready, that the State's and its component units' remediation efforts will be successful in whole or in part, or that parties with whom the State and its component units do business will be Year 2000 ready. In addition, the completion of these stages is not a guarantee that systems and equipment will be Year 2000-compliant.

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

June 30, 1999

(Expressed in Thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)	NOTE 1		(c)	
Teachers' and State Employees'	12-31-98	\$ 30,187,100	\$ 30,354,222	\$ 167,122	99.4%	\$ 7,994,826	2.1%
	12-31-97	27,765,057	28,071,156	306,099	98.9%	7,373,713	4.2%
	12-31-96 ^A	25,357,460	25,478,193	120,733	99.5%	6,845,185	1.8%
	12-31-95	22,178,592	22,663,750	485,158	97.9%	6,595,618	7.4%
	12-31-94	20,394,957	20,908,734	513,777	97.5%	6,323,410	8.1%
	12-31-93	18,695,663	19,274,394	578,731	97.0%	5,975,648	9.7%
Consolidated Judicial	12-31-98	\$ 226,712	\$ 225,944	\$ (768)	100.3%	\$ 40,926	(1.9)%
	12-31-97	207,706	199,204	(8,502)	104.3%	39,698	(21.4)%
	12-31-96 ^A	188,722	183,442	(5,280)	102.9%	36,608	(14.4)%
	12-31-95	164,358	175,126	10,768	93.9%	35,665	30.2%
	12-31-94	151,366	161,732	10,366	93.6%	34,114	30.4%
	12-31-93	138,419	148,495	10,076	93.2%	29,832	33.8%
Legislative	12-31-98	\$ 17,885	\$ 15,975	\$ (1,910)	112.0%	\$ 3,615	(52.8)%
	12-31-97	16,186	14,761	(1,425)	109.7%	3,605	(39.5)%
	12-31-96 ^A	14,563	13,715	(848)	106.2%	3,573	(23.7)%
	12-31-95	12,883	12,685	(198)	101.6%	3,616	(5.5)%
	12-31-94	11,281	11,137	(144)	101.3%	3,309	(4.4)%
	12-31-93	9,611	8,854	(757)	108.5%	2,264	(33.4)%
Firemen's, Rescue Squad Workers'	6-30-98	\$ 158,332	\$ 190,451	\$ 32,119	83.1%	N/A	N/A
	6-30-97 ^A	142,169	173,030	30,861	82.2%	N/A	N/A
	6-30-96	123,265	160,233	36,968	76.9%	N/A	N/A
	6-30-95	110,196	157,644	47,448	69.9%	N/A	N/A
	6-30-94	101,563	123,691	22,128	82.1%	N/A	N/A
	6-30-93	94,542	110,204	15,662	85.8%	N/A	N/A
National Guard	12-31-98	\$ 34,090	\$ 43,065	\$ 8,975	79.2%	N/A	N/A
	12-31-97	30,274	42,766	12,492	70.8%	N/A	N/A
	12-31-96 ^A	26,648	39,421	12,773	67.6%	N/A	N/A
	12-31-95	22,643	37,559	14,916	60.3%	N/A	N/A
	12-31-94	20,159	34,817	14,658	57.9%	N/A	N/A
	12-31-93	17,874	33,037	15,163	54.1%	N/A	N/A
Local Governmental	12-31-98	\$ 7,625,281	\$ 7,687,973	\$ 62,692	99.2%	\$ 2,929,544	2.1%
	12-31-97	6,928,217	6,991,702	63,485	99.1%	2,742,504	2.3%
	12-31-96 ^A	6,258,674	6,321,622	62,948	99.0%	2,593,671	2.4%
	12-31-95	5,411,167	5,472,970	61,803	98.9%	2,429,402	2.5%
	12-31-94	4,911,161	4,971,957	60,796	98.8%	2,280,714	2.7%
	12-31-93	4,436,587	4,517,945	81,358	98.2%	2,142,313	3.8%

NOTE 1 a negative UAAL denotes excess actuarial assets**N/A** - Not applicable**A** - Actuarial value of assets was revised from cost to 5-year smoothed market

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 89.

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

For the Six-Year Period 1994 to 1999 (July 1 to June 30)

(Expressed in Thousands)

<i>Retirement System</i>	<i>State Fiscal Year</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
Teachers' and State Employees'	1999	\$ 630,049	100%
	1998	610,377	100%
	1997	593,481	100%
	1996	559,980	100%
	1995	564,336	100%
	1994	526,332	100%
Consolidated Judicial	1999	\$ 7,263	100%
	1998	8,485	100%
	1997	7,976	100%
	1996	7,536	100%
	1995	7,371	100%
	1994	6,991	100%
Legislative	1999	\$ 770	104%
	1998	741	108%
	1997	742	108%
	1996	725	104%
	1995	739	156%
	1994	586	142%
Firemen's, Rescue Squad Workers'	1999	\$ 12,105	100%
	1998	11,735	100%
	1997	11,735	100%
	1996	11,735	100%
	1995	7,449	100%
	1994	5,247	100%
National Guard	1999	\$ 2,533	100%
	1998	2,533	100%
	1997	2,303	100%
	1996	2,283	100%
	1995	2,189	100%
	1994	2,189	100%
Local Governmental Employees'	1999	\$ 157,764	100%
	1998	149,058	100%
	1997	142,952	100%
	1996	136,390	100%
	1995	129,915	100%
	1994	123,260	100%

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 89.

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

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SPECIAL REVENUE FUNDS

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

The following are included in special revenue funds:

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

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET**

June 30, 1999

(Dollars in Thousands)

	State Highway Fund	Highway Trust Fund	Public School Bond Fund	Public School Building Capital Fund	Clean Water Management Trust Fund	Educational Materials, School Buses Fund	Employment Security Commission Funds
ASSETS							
Cash and cash equivalents.....	\$ 330,508	\$ 690,860	\$ 680,791	\$ 94,471	\$ 117,451	\$ 29,461	\$ 4,365
Investments.....	206,118	391,866	—	53,033	65,934	—	—
Receivables:							
Taxes receivable.....	73,818	27,512	—	—	—	—	—
Accounts receivable.....	2,483	316	—	—	—	40	631
Intergovernmental receivables.....	70,922	—	—	—	—	159	2,552
Interest receivable.....	1,694	3,545	—	643	591	—	—
Other receivables.....	8,092	—	—	—	—	—	—
Due from other funds.....	10,202	72,749	—	—	—	—	2,143
Notes receivable.....	—	—	—	—	—	—	—
Inventories.....	62,696	—	—	—	—	20,323	746
Prepaid items.....	—	—	—	—	—	—	147
Sureties.....	20,992	—	—	—	—	—	—
Total Assets.....	<u>\$ 787,525</u>	<u>\$ 1,186,848</u>	<u>\$ 680,791</u>	<u>\$ 148,147</u>	<u>\$ 183,976</u>	<u>\$ 49,983</u>	<u>\$ 10,584</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 64,732	\$ 11,472	\$ —	\$ 6	\$ 300	\$ 51,433	\$ 2,645
Accrued payroll.....	22,653	—	—	—	—	—	467
Intergovernmental payables.....	87,233	42,170	—	—	187	39	—
Arbitrage rebate payable.....	—	—	2,530	—	—	—	—
Obligations under securities lending..	206,118	391,866	—	53,033	65,934	—	—
Due to other funds.....	85,006	—	—	—	2	—	—
Due to component units.....	1,244	—	—	—	—	—	—
Claims payable.....	—	—	—	—	—	—	48
Deposits payable.....	88,471	351	—	—	—	—	—
Deferred revenue.....	5,238	—	—	—	—	—	—
Total Liabilities.....	<u>560,695</u>	<u>445,859</u>	<u>2,530</u>	<u>53,039</u>	<u>66,423</u>	<u>51,472</u>	<u>3,160</u>
Fund Balances:							
Reserved for:							
Reserved for specific encumbrances.....	14,228	—	—	—	—	—	—
Inventories.....	4,020	—	—	—	—	20,323	746
Vacation, sick leave.....	30,129	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	—
Prepaid items.....	—	—	—	—	—	—	147
Loan and grant commitments.....	—	—	645,028	—	60,127	—	—
Other purposes.....	1,030	—	—	—	—	—	—
Unreserved:							
Undesignated.....	177,423	740,989	33,233	95,108	57,426	(21,812)	6,531
Total Fund Balances.....	<u>226,830</u>	<u>740,989</u>	<u>678,261</u>	<u>95,108</u>	<u>117,553</u>	<u>(1,489)</u>	<u>7,424</u>
Total Liabilities and Fund Balances...	<u>\$ 787,525</u>	<u>\$ 1,186,848</u>	<u>\$ 680,791</u>	<u>\$ 148,147</u>	<u>\$ 183,976</u>	<u>\$ 49,983</u>	<u>\$ 10,584</u>

Exhibit B-1

Highway Patrol Fund	Employment and Training Administration Fund	Clean Water Bonds Loan Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Community Colleges Special Programs Fund	Wildlife Resources Commission Fund	Other Funds	Totals
\$ 13,036	\$ 494	\$ 578	\$ 26,607	\$ 35,972	\$ 12,341	\$ 422,089	\$ 2,459,024
1,105	—	19	14,474	—	5,135	162,866	900,550
—	—	—	1,491	—	—	678	103,499
436	29	—	3,227	—	197	17,541	24,900
7	16	—	—	—	804	3,141	77,601
—	—	764	119	—	41	2,725	10,122
—	—	—	—	—	—	—	8,092
—	—	—	—	—	356	4,852	90,302
—	—	87,550	1,380	—	—	22,165	111,095
3,524	—	—	—	—	1,037	948	89,274
—	—	—	—	—	—	239	386
—	—	—	—	—	—	28,626	49,618
<u>\$ 18,108</u>	<u>\$ 539</u>	<u>\$ 88,911</u>	<u>\$ 47,298</u>	<u>\$ 35,972</u>	<u>\$ 19,911</u>	<u>\$ 665,870</u>	<u>\$ 3,924,463</u>
\$ 1,555	\$ 20	\$ —	\$ 2,399	\$ —	\$ 887	\$ 10,851	\$ 146,300
600	—	—	—	—	157	239	24,116
2	—	—	14	—	—	777	130,422
—	—	—	—	—	—	3,258	5,788
1,105	—	19	14,474	—	5,135	139,277	876,961
61	17	—	—	—	704	2,574	88,364
—	—	—	—	28,898	—	—	30,142
—	—	—	—	—	—	—	48
—	—	—	—	—	—	28,627	117,449
384	15	—	—	—	—	17,077	22,714
<u>3,707</u>	<u>52</u>	<u>19</u>	<u>16,887</u>	<u>28,898</u>	<u>6,883</u>	<u>202,680</u>	<u>1,442,304</u>
—	—	—	—	—	—	—	14,228
3,524	—	—	—	—	1,037	948	30,598
—	—	—	—	—	—	—	30,129
—	—	87,550	1,380	—	—	22,165	111,095
—	—	—	—	—	—	239	386
—	—	543	—	—	—	—	705,698
—	—	—	—	—	—	200	1,230
<u>10,877</u>	<u>487</u>	<u>799</u>	<u>29,031</u>	<u>7,074</u>	<u>11,991</u>	<u>439,638</u>	<u>1,588,795</u>
<u>14,401</u>	<u>487</u>	<u>88,892</u>	<u>30,411</u>	<u>7,074</u>	<u>13,028</u>	<u>463,190</u>	<u>2,482,159</u>
<u>\$ 18,108</u>	<u>\$ 539</u>	<u>\$ 88,911</u>	<u>\$ 47,298</u>	<u>\$ 35,972</u>	<u>\$ 19,911</u>	<u>\$ 665,870</u>	<u>\$ 3,924,463</u>

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	State Highway Fund	Highway Trust Fund	Public School Bond Fund	Public School Building Capital Fund	Clean Water Management Trust Fund	Educational Materials, School Buses Fund	Employment Security Commission Funds
Revenues:							
Taxes.....	\$ 760,750	\$ 744,237	\$ —	\$ 62,864	\$ —	\$ —	\$ —
Federal funds.....	706,107	—	—	—	—	—	100,867
Local funds.....	21,635	685	—	—	—	1,052	7,298
Investment earnings.....	24,426	56,673	29,207	11,130	10,837	—	—
Interest earnings on loans.....	—	—	—	—	—	—	—
Sales and services.....	7,173	—	—	—	—	2,205	—
Sale, rental and lease of property.....	11,987	1,864	—	—	—	1,099	—
Fees, licenses and fines.....	364,230	90,493	—	—	—	9	2,093
Contributions, gifts and grants.....	1,170	—	—	—	—	—	4,484
Miscellaneous.....	13,460	302	—	—	—	—	1,256
Total revenues.....	<u>1,910,938</u>	<u>894,254</u>	<u>29,207</u>	<u>73,994</u>	<u>10,837</u>	<u>4,365</u>	<u>115,998</u>
Expenditures:							
Current:							
General government.....	—	—	—	—	—	—	—
Education.....	—	—	496,993	87,673	—	111,997	—
Health and human services.....	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	132,452
Environment and natural resources.....	—	—	—	—	23,892	—	—
Public safety, corrections, and regulation.....	—	—	—	—	—	—	—
Transportation.....	1,997,528	511,358	—	—	—	—	—
Agriculture.....	—	—	—	—	—	—	—
Debt service:							
Bond principal retirement.....	—	16,675	—	—	—	—	—
Bond interest.....	—	11,683	—	—	—	—	—
Total expenditures.....	<u>1,997,528</u>	<u>539,716</u>	<u>496,993</u>	<u>87,673</u>	<u>23,892</u>	<u>111,997</u>	<u>132,452</u>
Excess revenues over (under) expenditures.....	<u>(86,590)</u>	<u>354,538</u>	<u>(467,786)</u>	<u>(13,679)</u>	<u>(13,055)</u>	<u>(107,632)</u>	<u>(16,454)</u>
Other Financing Sources (Uses):							
Operating transfers in.....	375,599	—	—	—	47,398	95,903	15,189
Operating transfers from component units..	—	—	—	—	—	—	—
Operating transfers out.....	(179,886)	(525,045)	(10,722)	(4,343)	(44)	(711)	(159)
Operating transfers to component units.....	(8,238)	—	—	—	—	—	—
Proceeds from bond sale.....	—	—	450,000	—	—	—	—
Total other financing sources (uses).....	<u>187,475</u>	<u>(525,045)</u>	<u>439,278</u>	<u>(4,343)</u>	<u>47,354</u>	<u>95,192</u>	<u>15,030</u>
Excess revenues and other sources over (under) expenditures and other uses.....	100,885	(170,507)	(28,508)	(18,022)	34,299	(12,440)	(1,424)
Fund balances — July 1.....	126,236	911,496	695,556	113,130	83,254	6,496	8,545
Restatements.....	—	—	11,213	—	—	—	—
Residual equity transfers in.....	—	—	—	—	—	—	—
Residual equity transfers out.....	—	—	—	—	—	—	—
Increase (decrease) in reserve for related assets.....	(291)	—	—	—	—	4,455	303
Fund balances — June 30.....	<u>\$ 226,830</u>	<u>\$ 740,989</u>	<u>\$ 678,261</u>	<u>\$ 95,108</u>	<u>\$ 117,553</u>	<u>\$ (1,489)</u>	<u>\$ 7,424</u>

Exhibit B-2

Highway Patrol Fund	Employment and Training Administration Fund	Clean Water Bonds Loan Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Community Colleges Special Programs Fund	Wildlife Resources Commission Fund	Other Funds	Totals
\$ —	\$ —	\$ —	\$ 16,691	\$ —	\$ 11,304	\$ 52,740	\$ 1,648,586
168	48,634	—	—	—	8,223	65,098	929,097
—	82	—	—	—	188	990	31,930
192	—	82	1,666	—	816	27,928	162,957
—	—	5,039	49	—	—	1,577	6,665
1,568	—	—	—	—	2,328	8,257	21,531
3,398	—	—	—	—	152	1,783	20,283
1,492	—	—	8,989	—	17,729	133,682	618,717
1,283	—	—	—	—	2,071	20,948	29,956
73	7	—	—	—	88	1,022	16,208
<u>8,174</u>	<u>48,723</u>	<u>5,121</u>	<u>27,395</u>	<u>—</u>	<u>42,899</u>	<u>314,025</u>	<u>3,485,930</u>
—	—	—	—	—	—	68,551	68,551
—	—	—	—	—	—	65,130	761,793
—	—	—	—	—	—	50,538	50,538
—	51,050	—	—	—	—	53,104	236,606
—	—	25	20,844	—	42,554	65,516	152,831
124,286	—	—	—	—	—	57,702	181,988
—	—	—	—	—	—	—	2,508,886
—	—	—	—	—	—	209	209
—	—	—	—	—	—	—	16,675
—	—	—	—	—	—	—	11,683
<u>124,286</u>	<u>51,050</u>	<u>25</u>	<u>20,844</u>	<u>—</u>	<u>42,554</u>	<u>360,750</u>	<u>3,989,760</u>
(116,112)	(2,327)	5,096	6,551	—	345	(46,725)	(503,830)
123,196	2,079	—	6,131	9,500	2,861	122,320	800,176
—	—	—	—	—	—	951	951
(630)	—	(10,123)	(3,188)	—	(1,818)	(53,826)	(790,495)
—	—	—	—	(8,933)	—	—	(17,171)
—	—	—	—	—	—	55	450,055
<u>122,566</u>	<u>2,079</u>	<u>(10,123)</u>	<u>2,943</u>	<u>567</u>	<u>1,043</u>	<u>69,500</u>	<u>443,516</u>
6,454	(248)	(5,027)	9,494	567	1,388	22,775	(60,314)
7,569	735	93,919	20,917	6,507	12,034	398,043	2,484,437
—	—	—	—	—	—	41,478	52,691
—	—	—	—	—	26	415	441
—	—	—	—	—	(14)	(7)	(21)
<u>378</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(406)</u>	<u>486</u>	<u>4,925</u>
<u>\$ 14,401</u>	<u>\$ 487</u>	<u>\$ 88,892</u>	<u>\$ 30,411</u>	<u>\$ 7,074</u>	<u>\$ 13,028</u>	<u>\$ 463,190</u>	<u>\$ 2,482,159</u>

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	Employment and Training Administration Fund			Employment Security Commission Funds		
	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues:						
Departmental:						
Federal funds.....	\$ 97,200	\$ 48,615	\$ (48,585)	\$ 100,540	\$ 101,124	\$ 584
Local funds.....	133	56	(77)	7,600	7,834	234
Inter-agency grants and allocations.....	—	—	—	4,240	4,261	21
Intra-governmental transactions.....	2,181	2,132	(49)	46,361	30,137	(16,224)
Sales and services.....	—	—	—	—	—	—
Sale, rental and lease of property.....	4	3	(1)	—	—	—
Fees, licenses and fines.....	—	—	—	—	—	—
Contributions, gifts and grants.....	—	—	—	—	—	—
Miscellaneous.....	65	11	(54)	1,370	1,403	33
Total revenues.....	<u>99,583</u>	<u>50,817</u>	<u>(48,766)</u>	<u>160,111</u>	<u>144,759</u>	<u>(15,352)</u>
Expenditures:						
Current:						
General government.....	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—
Environment and natural resources.....	—	—	—	—	—	—
Economic development.....	100,327	51,082	49,245	160,111	144,102	16,009
Public safety and corrections.....	—	—	—	—	—	—
Total expenditures.....	<u>100,327</u>	<u>51,082</u>	<u>49,245</u>	<u>160,111</u>	<u>144,102</u>	<u>16,009</u>
Excess revenues over (under) expenditures.....	<u>\$ (744)</u>	<u>(265)</u>	<u>\$ 479</u>	<u>\$ —</u>	<u>657</u>	<u>\$ 657</u>
Unreserved fund balances (budgetary basis) at July 1, 1998.....		755			1,040	
Restatements (Note 2 B).....		—			—	
Unreserved fund balances (budgetary basis) at June 30, 1999.....		<u>\$ 490</u>			<u>\$ 1,697</u>	

Exhibit B-3

Highway Patrol Fund			Wildlife Resources Commission Fund			Other Funds		
<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
\$ 3,064	\$ 168	\$ (2,896)	\$ 6,698	\$ 7,495	\$ 797	\$ 74,746	\$ 53,573	\$ (21,173)
—	—	—	156	188	32	672	257	(415)
—	—	—	1,485	1,519	34	6,582	3,636	(2,946)
139,718	125,571	(14,147)	35,159	36,218	1,059	75,815	58,069	(17,746)
1,544	1,602	58	1,818	2,344	526	2,588	2,012	(576)
3,647	3,910	263	81	152	71	40	45	5
21	381	360	19,796	17,548	(2,248)	78,913	61,491	(17,422)
1	1	—	75	95	20	390	240	(150)
1	74	73	175	662	487	5,529	3,655	(1,874)
<u>147,996</u>	<u>131,707</u>	<u>(16,289)</u>	<u>65,443</u>	<u>66,221</u>	<u>778</u>	<u>245,275</u>	<u>182,978</u>	<u>(62,297)</u>
—	—	—	—	—	—	74,586	67,883	6,703
—	—	—	—	—	—	602	589	13
—	—	—	72,015	68,160	3,855	64,107	55,247	8,860
—	—	—	—	—	—	89,233	47,445	41,788
<u>147,996</u>	<u>125,394</u>	<u>22,602</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>52,558</u>	<u>40,287</u>	<u>12,271</u>
<u>147,996</u>	<u>125,394</u>	<u>22,602</u>	<u>72,015</u>	<u>68,160</u>	<u>3,855</u>	<u>281,086</u>	<u>211,451</u>	<u>69,635</u>
<u>\$ —</u>	<u>6,313</u>	<u>\$ 6,313</u>	<u>\$ (6,572)</u>	<u>(1,939)</u>	<u>\$ 4,633</u>	<u>\$ (35,811)</u>	<u>(28,473)</u>	<u>\$ 7,338</u>
	4,755			14,280			237,611	
	—			—			(126,517)	
	<u>\$ 11,068</u>			<u>\$ 12,341</u>			<u>\$ 82,621</u>	

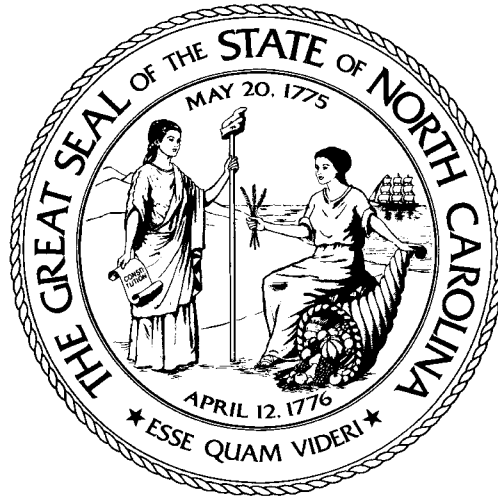
SPECIAL REVENUE FUNDS**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNRESERVED FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)**

For the Fiscal Year Ended June 30, 1999

Exhibit B-3

(Dollars in Thousands)

	Totals -		
	<u>Budgeted Special Revenue Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
			<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues:			
Departmental:			
Federal funds.....	\$ 282,248	\$ 210,975	\$ (71,273)
Local funds.....	8,561	8,335	(226)
Inter-agency grants and allocations.....	12,307	9,416	(2,891)
Intra-governmental transactions.....	299,234	252,127	(47,107)
Sales and services.....	5,950	5,958	8
Sale, rental and lease of property.....	3,772	4,110	338
Fees, licenses and fines.....	98,730	79,420	(19,310)
Contributions, gifts and grants.....	466	336	(130)
Miscellaneous.....	7,140	5,805	(1,335)
Total revenues.....	<u>718,408</u>	<u>576,482</u>	<u>(141,926)</u>
Expenditures:			
Current:			
General government.....	74,586	67,883	6,703
Health and human services.....	602	589	13
Environment and natural resources.....	136,122	123,407	12,715
Economic development.....	349,671	242,629	107,042
Public safety and corrections.....	200,554	165,681	34,873
Total expenditures.....	<u>761,535</u>	<u>600,189</u>	<u>161,346</u>
Excess revenues over (under) expenditures.....	<u>\$ (43,127)</u>	<u>(23,707)</u>	<u>\$ 19,420</u>
Unreserved fund balances (budgetary basis) at July 1, 1998.....		258,441	
Restatements (Note 2 B).....		<u>(126,517)</u>	
Unreserved fund balances (budgetary basis) at June 30, 1999.....		<u>\$ 108,217</u>	



CAPITAL PROJECTS FUNDS

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

The following activities are included in the capital projects funds:

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

**CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET**

June 30, 1999

Exhibit C-1

(Dollars in Thousands)

	Capital Projects Fund	State Capital Facilities Legislative Bond Fund of 1991	State Prison and Youth Services Facilities Bond Fund	State Parks Bond Fund	<i>Totals</i>
ASSETS					
Cash and cash equivalents.....	\$ 286,557	\$ 4	\$ 5,220	\$ 3,075	\$ 294,856
Receivables:					
Accounts receivable.....	15	—	—	—	15
Intergovernmental receivables.....	1,509	—	—	—	1,509
Due from other funds.....	2,400	—	—	—	2,400
Total Assets.....	<u>\$ 290,481</u>	<u>\$ 4</u>	<u>\$ 5,220</u>	<u>\$ 3,075</u>	<u>\$ 298,780</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 14,600	\$ —	\$ —	\$ 162	\$ 14,762
Intergovernmental payables.....	228	—	—	—	228
Arbitrage rebate payable.....	—	—	88	—	88
Due to other funds.....	77	—	—	—	77
Deposits payable.....	5,978	—	7	213	6,198
Total Liabilities.....	<u>20,883</u>	<u>—</u>	<u>95</u>	<u>375</u>	<u>21,353</u>
Fund Balances:					
Reserved for capital projects.....	81,414	—	—	662	82,076
Unreserved:					
Undesignated.....	188,184	4	5,125	2,038	195,351
Total Fund Balances.....	<u>269,598</u>	<u>4</u>	<u>5,125</u>	<u>2,700</u>	<u>277,427</u>
Total Liabilities and Fund Balances.....	<u>\$ 290,481</u>	<u>\$ 4</u>	<u>\$ 5,220</u>	<u>\$ 3,075</u>	<u>\$ 298,780</u>

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

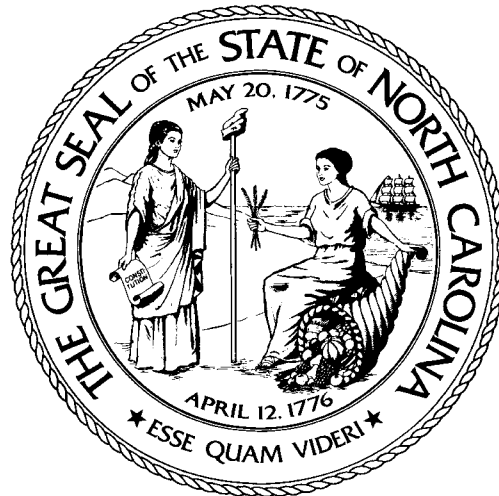
For the Fiscal Year Ended June 30, 1999

Exhibit C-2

(Dollars in Thousands)

	Capital Projects Fund	State Capital Facilities Legislative Bond Fund of 1991	State Prison and Youth Services Facilities Bond Fund	State Parks Bond Fund	Totals
Revenues:					
Federal funds.....	\$ 6,260	\$ —	\$ —	\$ —	\$ 6,260
Local funds.....	1,000	—	—	—	1,000
Investment earnings.....	—	—	386	—	386
Sales and services.....	320	—	—	—	320
Sale, rental and lease of property.....	71	—	—	—	71
Fees, licenses and fines.....	7	—	—	—	7
Contributions, gifts and grants.....	23,069	—	—	1,150	24,219
Miscellaneous.....	3,834	—	—	—	3,834
Total revenues.....	<u>34,561</u>	<u>—</u>	<u>386</u>	<u>1,150</u>	<u>36,097</u>
Expenditures:					
Capital outlay.....	<u>176,491</u>	<u>8</u>	<u>112</u>	<u>6,182</u>	<u>182,793</u>
Total expenditures.....	<u>176,491</u>	<u>8</u>	<u>112</u>	<u>6,182</u>	<u>182,793</u>
Excess revenues over (under) expenditures...	<u>(141,930)</u>	<u>(8)</u>	<u>274</u>	<u>(5,032)</u>	<u>(146,696)</u>
Other Financing Sources (Uses):					
Operating transfers in.....	178,066	8	—	416	178,490
Operating transfers from component units.....	1,100	25	—	—	1,125
Operating transfers out.....	<u>(3,110)</u>	<u>(485)</u>	<u>—</u>	<u>(2,301)</u>	<u>(5,896)</u>
Total other financing sources (uses).....	<u>176,056</u>	<u>(452)</u>	<u>—</u>	<u>(1,885)</u>	<u>173,719</u>
Excess revenues and other sources over (under) expenditures and other uses.....	34,126	(460)	274	(6,917)	27,023
Fund balances—July 1.....	243,621	483	4,863	9,617	258,584
Restatements.....	17	(17)	3,506	—	3,506
Residual equity transfers out.....	<u>(8,166)</u>	<u>(2)</u>	<u>(3,518)</u>	<u>—</u>	<u>(11,686)</u>
Fund balances—June 30.....	<u>\$ 269,598</u>	<u>\$ 4</u>	<u>\$ 5,125</u>	<u>\$ 2,700</u>	<u>\$ 277,427</u>

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ENTERPRISE FUNDS

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

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

Governmental Enterprise Funds

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

**ENTERPRISE FUNDS
COMBINING BALANCE SHEET**

June 30, 1999

Exhibit D-1

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
ASSETS									
Current Assets:									
Cash and cash equivalents.....	\$ 18,762	\$ 8,935	\$ 5,086	\$ 970	\$ 783	\$ 32	\$ 5,066	\$ 518	\$ 40,152
Investments.....	25,185	5,012	—	1,970	—	—	11,308	—	43,475
Receivables:									
Accounts receivable.....	357	—	46	9	—	—	830	12	1,254
Interest receivable.....	94	32	—	—	—	—	25	—	151
Premiums receivable.....	803	—	—	—	—	—	—	—	803
Inventories.....	—	—	61	221	20	—	—	56	358
Prepaid items.....	1,207	—	—	83	—	—	—	—	1,290
Total current assets.....	<u>46,408</u>	<u>13,979</u>	<u>5,193</u>	<u>3,253</u>	<u>803</u>	<u>32</u>	<u>17,229</u>	<u>586</u>	<u>87,483</u>
Fixed Assets:									
Land.....	—	—	1,379	97	1,087	292	—	—	2,855
Buildings.....	—	—	13,131	1,115	9,244	280	—	1,888	25,658
Other structures and improvements.	—	—	3,148	412	3,508	—	—	—	7,068
Machinery and equipment.....	—	—	883	1,425	296	27	—	43	2,674
Construction in progress.....	—	—	—	774	—	—	—	—	774
Accumulated depreciation.....	—	—	(10,349)	(1,739)	(4,651)	(131)	—	(96)	(16,966)
Total fixed assets.....	<u>—</u>	<u>—</u>	<u>8,192</u>	<u>2,084</u>	<u>9,484</u>	<u>468</u>	<u>—</u>	<u>1,835</u>	<u>22,063</u>
Total Assets.....	<u>\$ 46,408</u>	<u>\$ 13,979</u>	<u>\$ 13,385</u>	<u>\$ 5,337</u>	<u>\$ 10,287</u>	<u>\$ 500</u>	<u>\$ 17,229</u>	<u>\$ 2,421</u>	<u>\$109,546</u>
LIABILITIES AND FUND EQUITY									
Current Liabilities:									
Accounts payable and accrued liabilities:									
Accounts payable.....	\$ 50	\$ 403	\$ 146	\$ 56	\$ 7	\$ —	\$ 49	\$ 16	\$ 727
Accrued payroll.....	5	—	20	22	3	—	—	—	50
Obligations under securities lending.	12,062	5,012	—	—	—	—	2,845	—	19,919
Due to other funds.....	3	—	6	—	—	—	—	—	9
Claims payable.....	1,312	6,214	—	—	—	—	6,401	—	13,927
Accrued vacation leave.....	49	—	104	47	52	—	—	26	278
Deferred revenue.....	2,015	—	440	2	—	—	800	10	3,267
Total current liabilities.....	<u>15,496</u>	<u>11,629</u>	<u>716</u>	<u>127</u>	<u>62</u>	<u>—</u>	<u>10,095</u>	<u>52</u>	<u>38,177</u>
Fund Equity:									
Contributed capital.....	—	—	10,762	513	13,921	599	13,500	1,849	41,144
Retained earnings.....	30,912	2,350	1,907	4,697	(3,696)	(99)	(6,366)	520	30,225
Total Fund Equity.....	<u>30,912</u>	<u>2,350</u>	<u>12,669</u>	<u>5,210</u>	<u>10,225</u>	<u>500</u>	<u>7,134</u>	<u>2,369</u>	<u>71,369</u>
Total Liabilities and Fund Equity.....	<u>\$ 46,408</u>	<u>\$ 13,979</u>	<u>\$ 13,385</u>	<u>\$ 5,337</u>	<u>\$ 10,287</u>	<u>\$ 500</u>	<u>\$ 17,229</u>	<u>\$ 2,421</u>	<u>\$109,546</u>

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

For the Fiscal Year Ended June 30, 1999

Exhibit D-2

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Operating Revenues:									
Sales and services.....	\$ —	\$ —	\$ 341	\$ 702	\$ 28	\$ —	\$ —	\$ 164	\$ 1,235
Investment earnings.....	1,967	217	—	—	—	—	325	—	2,509
Rental and lease earnings.....	—	—	3,044	—	420	4	—	618	4,086
Fees, licenses and fines.....	—	—	5,220	1,480	395	—	—	571	7,666
Insurance premiums.....	5,000	—	—	—	—	—	1,887	—	6,887
Miscellaneous.....	—	—	3	35	1	—	—	2	41
Total operating revenues.....	6,967	217	8,608	2,217	844	4	2,212	1,355	22,424
Operating Expenses:									
Personal services.....	556	—	3,070	819	629	—	—	590	5,664
Supplies and materials.....	8	—	357	30	38	—	—	101	534
Services.....	121	2,975	2,554	576	167	—	671	384	7,448
Interest.....	624	67	—	—	—	—	84	—	775
Cost of goods sold.....	—	—	—	339	—	—	—	124	463
Depreciation/amortization.....	—	—	595	190	623	11	—	64	1,483
Claims.....	4,414	22,407	1	—	—	—	3,568	—	30,390
Insurance and bonding.....	1,683	—	106	28	32	—	341	32	2,222
Other.....	30	—	874	67	8	—	—	165	1,144
Total operating expenses.....	7,436	25,449	7,557	2,049	1,497	11	4,664	1,460	50,123
Operating income (loss).....	(469)	(25,232)	1,051	168	(653)	(7)	(2,452)	(105)	(27,699)
Nonoperating Revenues (Expenses):									
Investment earnings.....	—	—	—	92	—	—	—	—	92
Donations.....	—	—	36	841	5	—	—	48	930
Interest expense.....	—	—	—	(4)	—	—	—	—	(4)
Insurance recoveries.....	—	—	—	—	27	—	—	—	27
Miscellaneous.....	—	—	23	(365)	7	—	—	4	(331)
Total nonoperating revenues (expenses).....	—	—	59	564	39	—	—	52	714
Income (loss) before operating transfers.....	(469)	(25,232)	1,110	732	(614)	(7)	(2,452)	(53)	(26,985)
Operating Transfers:									
Transfers in.....	—	27,582	—	—	120	—	—	205	27,907
Transfers out.....	—	—	(1,279)	—	(2)	—	—	—	(1,281)
Total operating transfers in (out).....	—	27,582	(1,279)	—	118	—	—	205	26,626
Net income (loss).....	(469)	2,350	(169)	732	(496)	(7)	(2,452)	152	(359)
Fund equity — July 1.....	32,276	—	12,781	4,278	10,699	507	5,976	2,195	68,712
Restatements.....	(895)	—	—	—	—	—	(890)	22	(1,763)
Increase (decrease) in contributed capital.....	—	—	57	200	22	—	4,500	—	4,779
Fund equity — June 30.....	<u>\$ 30,912</u>	<u>\$ 2,350</u>	<u>\$ 12,669</u>	<u>\$ 5,210</u>	<u>\$ 10,225</u>	<u>\$ 500</u>	<u>\$ 7,134</u>	<u>\$ 2,369</u>	<u>\$ 71,369</u>

**ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Cash Provided From (Used For)									
Operations:									
Operating income (loss).....	\$ (469)	\$ (25,232)	\$ 1,051	\$ 168	\$ (653)	\$ (7)	\$ (2,452)	\$ (105)	\$ (27,699)
Adjustments to reconcile operating income to net cash flows from operating activities:									
Depreciation/amortization.....	—	—	595	190	623	11	—	64	1,483
Investment earnings.....	(1,967)	(217)	—	—	—	—	(325)	—	(2,509)
Securities lending fees.....	624	67	—	—	—	—	84	—	775
Restatements and adjustments to cash.....	—	—	—	781	—	—	(890)	—	(109)
Nonoperating miscellaneous income/expense.....	—	—	23	(365)	34	—	—	4	(304)
(Increases) decreases in assets:									
Receivables.....	352	—	31	(6)	—	—	—	—	377
Inventories.....	—	—	—	39	(1)	—	—	(10)	28
Prepaid items.....	9	—	—	(12)	—	—	—	—	(3)
Increases (decreases) in liabilities:									
Accounts payable and accrued liabilities.....	43	403	84	22	(11)	—	(26)	(5)	510
Due to other funds.....	2	—	(2)	—	—	—	—	—	—
Claims payable.....	(2,854)	6,214	—	—	—	—	1,543	—	4,903
Accrued vacation leave.....	—	—	(12)	5	(13)	—	—	(2)	(22)
Deferred revenue.....	135	—	14	2	—	—	800	(2)	949
Total cash provided from (used for) operations.....	(4,125)	(18,765)	1,784	824	(21)	4	(1,266)	(56)	(21,621)
Cash Provided From (Used For)									
Noncapital Financing Activities:									
Operating transfers in.....	—	27,582	—	—	120	—	—	205	27,907
Operating transfers out.....	—	—	(1,279)	—	(2)	—	—	—	(1,281)
Increase in contributed capital.....	—	—	57	200	22	—	4,500	—	4,779
Nonoperating cash donations.....	—	—	36	841	5	—	—	48	930
Total cash provided from (used for) noncapital financing activities.....	—	27,582	(1,186)	1,041	145	—	4,500	253	32,335

ENTERPRISE FUNDS COMBINING STATEMENT OF CASH FLOWS

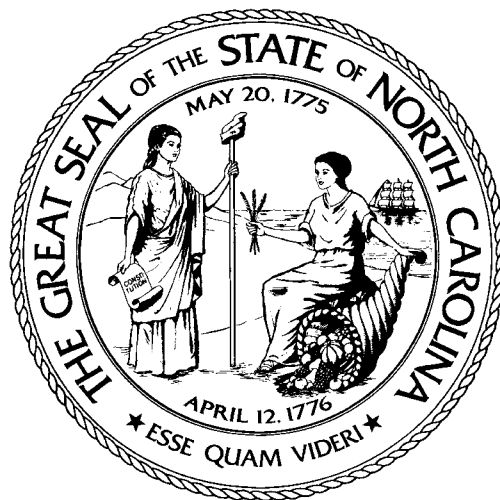
For the Fiscal Year Ended June 30, 1999

Exhibit D-3

(Dollars in Thousands)

	Public School Insurance	Child Health Insurance Program	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Cash Provided From (Used For)									
Capital Financing Activities:									
Acquisition of fixed assets.....	—	—	(44)	(155)	(38)	—	—	(63)	(300)
Repayment of bond/note principal.....	—	—	—	(130)	—	—	—	—	(130)
Interest payments on bonds and notes.....	—	—	—	(4)	—	—	—	—	(4)
Total cash provided from (used for) capital financing activities.....	—	—	(44)	(289)	(38)	—	—	(63)	(434)
Cash Provided From (Used For)									
Investment Activities:									
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	754	—	—	—	—	754
Purchase of non-State Treasurer investments.....	—	—	—	(1,585)	—	—	—	—	(1,585)
Investment earnings.....	1,220	118	—	68	—	—	174	—	1,580
Total cash provided from (used for) investment activities.....	1,220	118	—	(763)	—	—	174	—	749
Net increase (decrease) in cash and cash equivalents.....	(2,905)	8,935	554	813	86	4	3,408	134	11,029
Cash and cash equivalents at July 1.....	21,667	—	4,532	157	697	28	1,658	384	29,123
Cash and cash equivalents at June 30.....	<u>\$ 18,762</u>	<u>\$ 8,935</u>	<u>\$ 5,086</u>	<u>\$ 970</u>	<u>\$ 783</u>	<u>\$ 32</u>	<u>\$ 5,066</u>	<u>\$ 518</u>	<u>\$ 40,152</u>
Noncash Investing, Capital, and Financing Activities:									
Noncash distributions from the State									
Treasurer Long-Term Investment Portfolio...	\$ 137	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ —	\$ 187
Assets acquired through the assumption of a liability.....	12,062	5,012	—	—	—	—	2,845	—	19,919

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INTERNAL SERVICE FUNDS

The internal service funds are maintained to account for the operations of State agencies that provide services to other State agencies, component units, or other governmental units on a cost reimbursement basis.

The following activities are included in the internal service funds:

State Health Plan

Disability Income Plan of North Carolina

Death Benefit Plan of North Carolina

State Property Fire Insurance Fund

Self-insurance fund for State agencies and certain component units

Central Governmental Services:

Department of Correction:

Prison Enterprises

Department of Administration:

Motor Fleet Management

Courier Service

Temporary Solutions

Department of Commerce:

North Carolina Information Highway

Centralized Computing Services

State Telecommunications

Applications Development Services

Decentralized Computing Services

Other Funds:

Clerk of Supreme Court:

Printing Department

Cherry Hospital:

Auxiliary Services (laundry)

John Umstead Hospital:

Auxiliary Services

Department of Administration:

Administration of State and Federal Surplus Property

**INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET**

June 30, 1999

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
ASSETS								
Current Assets:								
Cash and cash equivalents.....	\$ 234,145	\$ 3,613	\$ 4,228	\$ 7,319	\$ 18,169	\$ 5,671	\$ 487	\$ 1,405
Investments.....	143,887	200,719	192,971	35,903	—	—	—	—
Receivables:								
Accounts receivable.....	3,017	1,665	46	—	4,297	1,572	201	729
Intergovernmental receivables.....	—	—	—	—	651	—	—	—
Interest receivable.....	1,377	22	18	34	—	—	—	—
Premiums receivable.....	124	—	—	15	—	—	—	—
Contributions.....	—	3,831	1,314	—	—	—	—	—
Due from other funds.....	—	—	—	—	6,828	4,391	—	19
Due from component units.....	—	—	—	—	7	453	—	—
Inventories.....	—	—	—	—	12,121	149	—	—
Prepaid items.....	—	—	—	—	—	—	—	—
Total current assets.....	<u>382,550</u>	<u>209,850</u>	<u>198,577</u>	<u>43,271</u>	<u>42,073</u>	<u>12,236</u>	<u>688</u>	<u>2,153</u>
Noncurrent Assets:								
Accounts receivable.....	—	—	—	—	—	—	—	—
Total noncurrent assets.....	—	—	—	—	—	—	—	—
Fixed Assets:								
Land.....	—	—	—	—	322	406	—	—
Buildings.....	—	—	—	—	22,958	1,162	—	—
Other structures and improvements...	—	—	—	—	1,724	377	—	—
Machinery and equipment.....	19	—	—	—	23,073	135,366	47	7
Construction in progress.....	—	—	—	—	10,538	—	—	—
Accumulated depreciation.....	(15)	—	—	—	(20,524)	(44,159)	(38)	(1)
Total fixed assets.....	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,091</u>	<u>93,152</u>	<u>9</u>	<u>6</u>
Total Assets.....	<u>\$ 382,554</u>	<u>\$ 209,850</u>	<u>\$ 198,577</u>	<u>\$ 43,271</u>	<u>\$ 80,164</u>	<u>\$ 105,388</u>	<u>\$ 697</u>	<u>\$ 2,159</u>
LIABILITIES AND FUND EQUITY								
Liabilities:								
Current Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable.....	\$ 5,595	\$ —	\$ 4	\$ —	\$ 2,029	\$ 784	\$ 11	\$ 12
Accrued payroll.....	—	—	—	—	41	—	29	410
Obligations under securities lending...	143,887	22,736	22,254	8,436	—	—	—	—
Due to other funds.....	1	—	—	2,656	78	371	53	1
Due to component units.....	—	—	—	184	—	—	—	—
Claims and benefits payable.....	136,401	216,432	1,813	518	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—	—
Accrued vacation leave.....	39	—	—	—	1,028	77	54	15
Deferred revenue.....	417	—	—	2,608	329	—	—	—
Total current liabilities.....	<u>286,340</u>	<u>239,168</u>	<u>24,071</u>	<u>14,402</u>	<u>3,505</u>	<u>1,232</u>	<u>147</u>	<u>438</u>
Total Liabilities.....	<u>286,340</u>	<u>239,168</u>	<u>24,071</u>	<u>14,402</u>	<u>3,505</u>	<u>1,232</u>	<u>147</u>	<u>438</u>
Fund Equity:								
Contributed capital.....	—	—	—	—	20,302	16,402	—	—
Retained earnings.....	96,214	(29,318)	174,506	28,869	56,357	87,754	550	1,721
Total Fund Equity.....	<u>96,214</u>	<u>(29,318)</u>	<u>174,506</u>	<u>28,869</u>	<u>76,659</u>	<u>104,156</u>	<u>550</u>	<u>1,721</u>
Total Liabilities and Fund Equity.....	<u>\$ 382,554</u>	<u>\$ 209,850</u>	<u>\$ 198,577</u>	<u>\$ 43,271</u>	<u>\$ 80,164</u>	<u>\$ 105,388</u>	<u>\$ 697</u>	<u>\$ 2,159</u>

Exhibit E-1

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 49	\$ 26,434	\$ 17,839	\$ 33	\$ 942	\$ 281	\$ 149	\$ 1,790	\$ 3,881	\$ 326,435
—	—	—	—	—	100	—	—	—	573,580
1,536	3,498	6,861	1,641	—	8	164	230	39	25,504
—	—	—	—	—	—	—	—	—	651
—	—	—	—	—	1	—	—	—	1,452
—	—	—	—	—	—	—	—	—	139
—	—	—	—	—	—	—	—	—	5,145
411	9,630	3,579	357	1,731	—	—	—	—	26,946
—	65	913	—	—	—	—	—	—	1,438
—	125	—	—	—	50	36	149	1	12,631
—	839	29	14	—	—	—	—	—	882
<u>1,996</u>	<u>40,591</u>	<u>29,221</u>	<u>2,045</u>	<u>2,673</u>	<u>440</u>	<u>349</u>	<u>2,169</u>	<u>3,921</u>	<u>974,803</u>
—	1	—	—	—	—	—	—	—	1
—	1	—	—	—	—	—	—	—	1
—	2,861	—	—	—	—	—	—	19	3,608
—	9,013	—	—	—	—	2,349	2,284	263	38,029
—	34	—	—	—	—	—	10,145	36	12,316
946	89,491	21,492	333	1,014	409	1,465	1,374	433	275,469
—	—	—	—	—	—	—	—	—	10,538
(542)	(66,553)	(15,557)	(333)	(786)	(83)	(2,609)	(6,645)	(606)	(158,451)
<u>404</u>	<u>34,846</u>	<u>5,935</u>	<u>—</u>	<u>228</u>	<u>326</u>	<u>1,205</u>	<u>7,158</u>	<u>145</u>	<u>181,509</u>
<u>\$ 2,400</u>	<u>\$ 75,438</u>	<u>\$ 35,156</u>	<u>\$ 2,045</u>	<u>\$ 2,901</u>	<u>\$ 766</u>	<u>\$ 1,554</u>	<u>\$ 9,327</u>	<u>\$ 4,066</u>	<u>\$ 1,156,313</u>
\$ 5	\$ 2,765	\$ 1,605	\$ 521	\$ —	\$ 11	\$ 12	\$ 62	\$ 1,343	\$ 14,759
6	38	65	—	—	—	—	6	—	595
—	—	—	—	—	—	—	—	—	197,313
369	1,534	9	1,404	—	—	—	—	151	6,627
—	—	—	—	—	—	—	—	—	184
—	—	—	—	—	—	—	—	—	355,164
—	—	—	—	—	—	—	70	—	70
53	748	304	268	—	3	72	138	71	2,870
—	—	—	—	—	—	—	1	—	3,355
<u>433</u>	<u>5,085</u>	<u>1,983</u>	<u>2,193</u>	<u>—</u>	<u>14</u>	<u>84</u>	<u>277</u>	<u>1,565</u>	<u>580,937</u>
<u>433</u>	<u>5,085</u>	<u>1,983</u>	<u>2,193</u>	<u>—</u>	<u>14</u>	<u>84</u>	<u>277</u>	<u>1,565</u>	<u>580,937</u>
—	5,785	1,307	15	6	—	3,284	12,338	315	59,754
1,967	64,568	31,866	(163)	2,895	752	(1,814)	(3,288)	2,186	515,622
1,967	70,353	33,173	(148)	2,901	752	1,470	9,050	2,501	575,376
<u>\$ 2,400</u>	<u>\$ 75,438</u>	<u>\$ 35,156</u>	<u>\$ 2,045</u>	<u>\$ 2,901</u>	<u>\$ 766</u>	<u>\$ 1,554</u>	<u>\$ 9,327</u>	<u>\$ 4,066</u>	<u>\$ 1,156,313</u>

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Operating Revenues:								
Sales and services.....	\$ 16,365	\$ —	\$ —	\$ —	\$ 75,910	\$ 36,013	\$ 2,140	\$ 7,065
Investment earnings.....	28,763	3,332	3,160	1,317	—	—	—	—
Rental and lease earnings.....	—	—	—	—	—	—	—	—
Fees, licenses and fines.....	—	—	1,009	—	—	—	—	—
Contributions.....	—	46,775	23,454	—	—	—	—	—
Insurance premiums.....	591,594	—	—	13,732	—	—	—	—
Other.....	—	—	—	—	560	546	—	—
Total operating revenues.....	<u>636,722</u>	<u>50,107</u>	<u>27,623</u>	<u>15,049</u>	<u>76,470</u>	<u>36,559</u>	<u>2,140</u>	<u>7,065</u>
Operating Expenses:								
Personal services.....	632	—	236	1,168	16,750	1,582	1,367	6,784
Supplies and materials.....	17	—	—	9	3,902	6,314	63	39
Services.....	18,402	418	189	151	4,061	2,087	608	28
Interest.....	8,805	1,251	1,186	501	—	—	—	—
Cost of goods sold.....	—	—	—	—	36,199	715	—	—
Depreciation.....	2	—	—	—	2,245	14,411	9	1
Claims and benefits.....	734,552	31,061	22,436	5,043	74	—	—	—
Insurance and bonding.....	—	—	—	7,466	341	2,067	—	—
Other.....	59	—	—	123	2,632	6	10	30
Total operating expenses.....	<u>762,469</u>	<u>32,730</u>	<u>24,047</u>	<u>14,461</u>	<u>66,204</u>	<u>27,182</u>	<u>2,057</u>	<u>6,882</u>
Operating income (loss).....	<u>(125,747)</u>	<u>17,377</u>	<u>3,576</u>	<u>588</u>	<u>10,266</u>	<u>9,377</u>	<u>83</u>	<u>183</u>
Nonoperating Revenues (Expenses):								
Gain (loss) on sale of property and equipment.....	—	—	—	—	(664)	(430)	—	—
Investment earnings.....	—	—	—	—	—	—	—	—
Insurance recoveries.....	—	—	—	1,425	—	—	—	—
Miscellaneous.....	—	—	—	—	195	—	—	—
Total nonoperating revenues (expenses)...	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,425</u>	<u>(469)</u>	<u>(430)</u>	<u>—</u>	<u>—</u>
Income (loss) before operating transfers....	<u>(125,747)</u>	<u>17,377</u>	<u>3,576</u>	<u>2,013</u>	<u>9,797</u>	<u>8,947</u>	<u>83</u>	<u>183</u>
Operating Transfers:								
Transfers in.....	—	—	—	—	311	—	—	—
Transfers out.....	—	—	—	—	(2,010)	—	(1)	—
Total operating transfers in (out).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,699)</u>	<u>—</u>	<u>(1)</u>	<u>—</u>
Net income (loss).....	<u>(125,747)</u>	<u>17,377</u>	<u>3,576</u>	<u>2,013</u>	<u>8,098</u>	<u>8,947</u>	<u>82</u>	<u>183</u>
Fund equity — July 1.....	221,961	(46,695)	170,792	26,856	67,547	95,209	468	1,538
Restatements.....	—	—	138	—	—	—	—	—
Increases (decreases) in contributed capital.....	—	—	—	—	1,014	—	—	—
Fund equity — June 30.....	<u>\$ 96,214</u>	<u>\$ (29,318)</u>	<u>\$ 174,506</u>	<u>\$ 28,869</u>	<u>\$ 76,659</u>	<u>\$ 104,156</u>	<u>\$ 550</u>	<u>\$ 1,721</u>

Exhibit E-2

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 7,840	\$ 60,872	\$ 64,194	\$ 8,064	\$ 10	\$ 444	\$ 1,614	\$ 3,469	\$ 1,480	\$ 285,480
—	—	—	—	—	—	—	—	—	36,572
—	364	—	—	—	—	—	—	7	371
—	—	—	—	—	—	—	2	—	1,011
—	—	—	—	—	—	—	—	—	70,229
—	—	—	—	—	—	—	—	—	605,326
—	—	235	—	10	31	—	—	78	1,460
<u>7,840</u>	<u>61,236</u>	<u>64,429</u>	<u>8,064</u>	<u>20</u>	<u>475</u>	<u>1,614</u>	<u>3,471</u>	<u>1,565</u>	<u>1,000,449</u>
992	9,277	7,634	4,223	—	183	1,016	1,549	895	54,288
16	525	135	44	—	38	143	659	98	12,002
7,833	12,501	42,503	4,299	—	53	319	780	421	94,653
—	—	—	—	—	—	—	—	—	11,743
—	—	—	—	—	—	—	—	—	36,914
261	12,312	1,903	—	233	36	83	608	38	32,142
—	—	—	—	—	—	—	—	—	793,166
2	125	36	1	—	3	—	2	17	10,060
289	22,876	8,758	606	12	115	9	270	7	35,802
<u>9,393</u>	<u>57,616</u>	<u>60,969</u>	<u>9,173</u>	<u>245</u>	<u>428</u>	<u>1,570</u>	<u>3,868</u>	<u>1,476</u>	<u>1,080,770</u>
<u>(1,553)</u>	<u>3,620</u>	<u>3,460</u>	<u>(1,109)</u>	<u>(225)</u>	<u>47</u>	<u>44</u>	<u>(397)</u>	<u>89</u>	<u>(80,321)</u>
—	(7)	—	—	—	—	—	—	(4)	(1,105)
—	—	—	—	—	22	—	—	—	22
—	—	1	—	—	—	—	—	—	1,426
—	11	—	1	—	—	—	—	—	207
—	4	1	1	—	22	—	—	(4)	550
<u>(1,553)</u>	<u>3,624</u>	<u>3,461</u>	<u>(1,108)</u>	<u>(225)</u>	<u>69</u>	<u>44</u>	<u>(397)</u>	<u>85</u>	<u>(79,771)</u>
3,224	—	—	—	—	—	—	395	—	3,930
(975)	(3)	(3)	(2)	—	—	—	(1,261)	—	(4,255)
<u>2,249</u>	<u>(3)</u>	<u>(3)</u>	<u>(2)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(866)</u>	<u>—</u>	<u>(325)</u>
696	3,621	3,458	(1,110)	(225)	69	44	(1,263)	85	(80,096)
1,271	66,877	29,683	962	3,126	683	1,426	10,313	2,416	654,433
—	(3)	—	—	—	—	—	—	—	135
—	(142)	32	—	—	—	—	—	—	904
<u>\$ 1,967</u>	<u>\$ 70,353</u>	<u>\$ 33,173</u>	<u>\$ (148)</u>	<u>\$ 2,901</u>	<u>\$ 752</u>	<u>\$ 1,470</u>	<u>\$ 9,050</u>	<u>\$ 2,501</u>	<u>\$ 575,376</u>

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Provided From (Used For)								
Operations:								
Operating income (loss).....	\$ (125,747)	\$ 17,377	\$ 3,576	\$ 588	\$ 10,266	\$ 9,377	\$ 83	\$ 183
Adjustments to reconcile operating income to net cash flows from operating activities:								
Depreciation.....	2	—	—	—	2,245	14,411	9	1
Investment earnings.....	(28,763)	(3,332)	(3,160)	(1,317)	—	—	—	—
Securities lending fees.....	8,805	1,251	1,186	501	—	—	—	—
Restatements and adjustments to cash.....	—	—	138	—	—	—	—	—
Nonoperating miscellaneous income.....	—	—	—	1,425	195	—	—	—
(Increases) decreases in assets:								
Receivables.....	(108)	455	(25)	(1)	(1,087)	363	6	(14)
Due from other funds.....	—	—	—	—	(1,510)	(1,179)	4	8
Due from component units.....	—	—	—	—	15	(23)	—	—
Inventories.....	—	—	—	—	1,108	(44)	—	—
Prepaid items.....	—	—	—	—	—	—	—	—
Increases (decreases) in liabilities:								
Accounts payable and accrued liabilities.....	909	—	(134)	—	(2,077)	(442)	6	(25)
Due to other funds.....	(1)	—	—	2,260	52	(58)	8	—
Due to component units.....	—	—	—	184	—	—	—	—
Claims and benefits payable.....	24,696	(15,860)	(467)	173	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—	—
Accrued vacation leave.....	(6)	—	—	—	17	(7)	(8)	4
Deferred revenue.....	(247)	—	—	(181)	240	—	—	—
Total cash provided from (used for) operations.....	(120,460)	(109)	1,114	3,632	9,464	22,398	108	157
Cash Provided From (Used For)								
Noncapital Financing Activities:								
Operating transfers in.....	—	—	—	—	251	—	—	—
Operating transfers out.....	—	—	—	—	(2,010)	—	(1)	—
Total cash provided from (used for) noncapital financing activities.....	—	—	—	—	(1,759)	—	(1)	—
Cash Provided From (Used For)								
Capital Financing Activities:								
Acquisition of fixed assets.....	—	—	—	—	(10,629)	(25,818)	—	—
Proceeds from the sale of fixed assets.....	—	—	—	—	16	2,959	—	—
Total cash provided from (used for) capital financing activities.....	—	—	—	—	(10,613)	(22,859)	—	—

Exhibit E-3

N. C. Information Highway	Centralized Computing Services	State Telecommunications Services	Applications Development Services	Decentralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ (1,553)	\$ 3,620	\$ 3,460	\$ (1,109)	\$ (225)	\$ 47	\$ 44	\$ (397)	\$ 89	\$ (80,321)
261	12,312	1,903	—	233	36	83	608	38	32,142
—	—	—	—	—	—	—	—	—	(36,572)
—	—	—	—	—	—	—	—	—	11,743
—	—	—	—	—	—	—	—	—	138
—	11	1	—	—	—	—	—	—	1,632
(821)	2,039	(5,636)	(828)	86	43	(142)	(74)	3	(5,741)
(405)	(2,148)	3,104	58	(1,322)	—	—	—	—	(3,390)
—	67	(231)	—	—	—	—	—	—	(172)
—	(103)	—	—	—	5	7	182	(1)	1,154
—	(369)	(29)	(14)	12	—	—	—	—	(400)
11	1,988	15	258	—	—	2	(64)	278	725
290	283	(88)	1,368	—	—	—	—	(387)	3,727
—	—	—	—	—	—	—	—	—	184
—	—	—	—	—	—	—	—	—	8,542
—	—	—	—	—	—	—	7	—	7
3	55	43	(96)	—	(2)	(18)	3	6	(6)
—	—	—	—	—	—	—	(1)	—	(189)
(2,214)	17,755	2,542	(363)	(1,216)	129	(24)	264	26	(66,797)
3,224	—	—	—	—	—	—	395	—	3,870
(975)	(3)	(3)	(2)	—	—	—	(1,261)	—	(4,255)
2,249	(3)	(3)	(2)	—	—	—	(866)	—	(385)
—	(10,410)	(2,840)	—	—	(362)	—	(49)	(20)	(50,128)
1	—	—	1	—	—	—	—	1	2,978
1	(10,410)	(2,840)	1	—	(362)	—	(49)	(19)	(47,150)

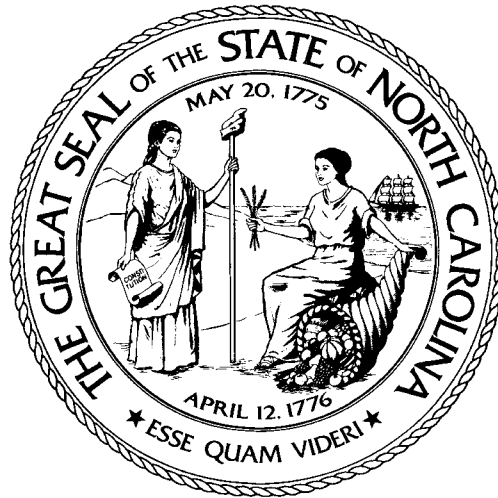
Continued

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (continued)

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Provided From (Used For)								
Investment Activities:								
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	—	—	—	—	—
Redemptions from the State Treasurer Long-Term Investment Portfolio.....	—	1,000	700	—	—	—	—	—
Purchase into State Treasurer Long-Term Investment Portfolio.....	—	—	—	(3,000)	—	—	—	—
Investment earnings.....	20,465	197	152	589	—	—	—	—
Total cash provided from (used for) investment activities.....	20,465	1,197	852	(2,411)	—	—	—	—
Net increase (decrease) in cash and cash equivalents.....	(99,995)	1,088	1,966	1,221	(2,908)	(461)	107	157
Cash and cash equivalents at July 1.....	334,140	2,525	2,262	6,098	21,077	6,132	380	1,248
Cash and cash equivalents at June 30.....	<u>\$ 234,145</u>	<u>\$ 3,613</u>	<u>\$ 4,228</u>	<u>\$ 7,319</u>	<u>\$ 18,169</u>	<u>\$ 5,671</u>	<u>\$ 487</u>	<u>\$ 1,405</u>
Noncash Investing, Capital, and Financing Activities:								
Noncash distributions from the State Treasurer Long-Term Investment Portfolio.....								
	\$ —	\$ 1,880	\$ 1,814	\$ 220	\$ —	\$ —	\$ —	\$ —
Increase in contributed capital.....	—	—	—	—	1,014	—	—	—
Decrease in contributed capital.....	—	—	—	—	—	—	—	—
Assets acquired through the assumption of a liability.....	143,887	22,736	22,254	8,436	—	—	—	—



TRUST AND AGENCY FUNDS

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

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

Expendable Trusts

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

Nonexpendable Trusts

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

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

Pension Trusts

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

Investment Trust Fund

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

Agency Funds

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

TRUST AND AGENCY FUNDS COMBINING BALANCE SHEET

June 30, 1999

Exhibit F-1

(Dollars in Thousands)

	Expendable Trust Funds	Non- expendable Trust Funds	Pension Trust Funds	Investment Trust Fund	Agency Funds	Totals
ASSETS						
Cash and cash equivalents.....	\$ 268,477	\$ 145,491	\$ 252,143	\$ 32,240	\$ 669,326	\$ 1,367,677
Investments.....	963,067	128,665	58,619,400	1,127,040	82,210	60,920,382
Deposit with Federal government.....	1,283,540	—	—	—	—	1,283,540
Receivables:						
Taxes receivable.....	116,234	—	—	—	113,016	229,250
Accounts receivable.....	14,724	5	593	—	2,602	17,924
Intergovernmental receivables.....	1,440	122	—	—	—	1,562
Interest receivable.....	1,355	1,873	1,366	10,278	5	14,877
Contributions receivable.....	154	—	129,656	—	—	129,810
Due from other funds.....	586	—	—	—	6,929	7,515
Due from component units.....	710	—	—	—	—	710
Advance to component units.....	25,000	—	—	—	—	25,000
Notes receivable.....	—	262,499	89,125	—	—	351,624
Inventories.....	1,245	—	—	—	301	1,546
Sureties.....	—	—	—	—	499,813	499,813
Total Assets.....	<u>\$ 2,676,532</u>	<u>\$ 538,655</u>	<u>\$ 59,092,283</u>	<u>\$ 1,169,558</u>	<u>\$ 1,374,202</u>	<u>\$ 64,851,230</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 2,347	\$ 15	\$ —	\$ —	\$ 3,202	\$ 5,564
Accrued payroll.....	61	—	—	—	—	61
Intergovernmental payables.....	884	106	—	—	588,716	589,706
Obligations under securities lending.....	170,713	82,271	2,774,458	420,003	11,836	3,459,281
Refunds and other payables.....	—	—	2,021	—	—	2,021
Due to other funds.....	249	2	1	—	13,633	13,885
Due to component units.....	14,531	—	—	—	—	14,531
Claims and benefits payable.....	27,858	—	43,600	—	16,052	87,510
Deposits payable.....	3	—	—	—	740,763	740,766
Distributions payable.....	—	—	—	3,550	—	3,550
Deferred revenue.....	9,748	—	—	—	—	9,748
Total Liabilities.....	<u>226,394</u>	<u>82,394</u>	<u>2,820,080</u>	<u>423,553</u>	<u>1,374,202</u>	<u>4,926,623</u>
Fund Balances:						
Reserved for:						
Inventories.....	1,245	—	—	—	—	1,245
Advances to component units.....	25,000	—	—	—	—	25,000
Claims and benefits.....	569,952	—	—	—	—	569,952
Notes receivable.....	—	259,543	—	—	—	259,543
Loan and grant commitments.....	9,695	112,238	—	—	—	121,933
Abandoned property.....	204,806	—	—	—	—	204,806
Political parties.....	125	—	—	—	—	125
Wildlife endowment.....	—	41,318	—	—	—	41,318
Employees' pension benefits.....	—	—	56,272,203	—	—	56,272,203
Energy conservation.....	1,856	—	—	—	—	1,856
Investment pool participants.....	—	—	—	746,005	—	746,005
Other purposes.....	635	26	—	—	—	661
Unreserved:						
Undesignated.....	1,636,824	43,136	—	—	—	1,679,960
Total Fund Balances.....	<u>2,450,138</u>	<u>456,261</u>	<u>56,272,203</u>	<u>746,005</u>	<u>—</u>	<u>59,924,607</u>
Total Liabilities and Fund Balances.....	<u>\$ 2,676,532</u>	<u>\$ 538,655</u>	<u>\$ 59,092,283</u>	<u>\$ 1,169,558</u>	<u>\$ 1,374,202</u>	<u>\$ 64,851,230</u>

**EXPENDABLE TRUST FUNDS
COMBINING BALANCE SHEET**

June 30, 1999

Exhibit F-2

(Dollars in Thousands)

	Unemployment Compensation Funds	Escheat Fund	Deferred Compensation Plan	Recreation and Natural Heritage Trust Fund	Other Funds	Totals
ASSETS						
Cash and cash equivalents.....	\$ 214,286	\$ 16,153	\$ 155	\$ 13,830	\$ 24,053	\$ 268,477
Investments.....	120,097	253,617	561,143	7,751	20,459	963,067
Deposit with Federal government..	1,283,540	—	—	—	—	1,283,540
Receivables:						
Taxes receivable.....	116,234	—	—	—	—	116,234
Accounts receivable.....	14,313	—	—	—	411	14,724
Intergovernmental receivables..	1,440	—	—	—	—	1,440
Interest receivable.....	1,066	82	—	124	83	1,355
Contributions receivable.....	—	—	1	—	153	154
Due from other funds.....	—	—	—	208	378	586
Due from component units.....	—	710	—	—	—	710
Advance to component units.....	—	25,000	—	—	—	25,000
Inventories.....	—	—	—	—	1,245	1,245
Total Assets.....	<u>\$ 1,750,976</u>	<u>\$ 295,562</u>	<u>\$ 561,299</u>	<u>\$ 21,913</u>	<u>\$ 46,782</u>	<u>\$ 2,676,532</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 1,885	\$ —	\$ —	\$ —	\$ 462	\$ 2,347
Accrued payroll.....	—	—	—	—	61	61
Intergovernmental payables.....	536	—	—	3	345	884
Obligations under securities lending.....	120,097	33,142	—	7,751	9,723	170,713
Due to other funds.....	74	—	—	107	68	249
Due to component units.....	—	14,531	—	—	—	14,531
Claims and benefits payable.....	12,024	15,834	—	—	—	27,858
Deposits payable.....	—	—	—	—	3	3
Deferred revenue.....	7,281	2,249	—	—	218	9,748
Total Liabilities.....	<u>141,897</u>	<u>65,756</u>	<u>—</u>	<u>7,861</u>	<u>10,880</u>	<u>226,394</u>
Fund Balances:						
Reserved for:						
Inventories.....	—	—	—	—	1,245	1,245
Advances to component units...	—	25,000	—	—	—	25,000
Claims and benefits.....	—	—	561,299	—	8,653	569,952
Abandoned property.....	—	204,806	—	—	—	204,806
Political parties.....	—	—	—	—	125	125
Energy conservation.....	—	—	—	—	1,856	1,856
Loan and grant commitments....	—	—	—	9,695	—	9,695
Other purposes.....	—	—	—	—	635	635
Unreserved:						
Undesignated.....	1,609,079	—	—	4,357	23,388	1,636,824
Total Fund Balances.....	<u>1,609,079</u>	<u>229,806</u>	<u>561,299</u>	<u>14,052</u>	<u>35,902</u>	<u>2,450,138</u>
Total Liabilities and Fund Balances.....	<u>\$ 1,750,976</u>	<u>\$ 295,562</u>	<u>\$ 561,299</u>	<u>\$ 21,913</u>	<u>\$ 46,782</u>	<u>\$ 2,676,532</u>

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

For the Fiscal Year Ended June 30, 1999

Exhibit F-3

(Dollars in Thousands)

	Unemployment Compensation Funds	Escheat Fund	Deferred Compensation Plan	Recreation and Natural Heritage Trust Fund	Other Funds	Totals
Revenues:						
Taxes.....	\$ 388,616	\$ —	\$ —	\$ 8,149	\$ 329	\$ 397,094
Federal funds.....	9,978	—	—	—	—	9,978
Local funds.....	—	—	—	—	99	99
Investment earnings.....	104,000	7,329	72,958	2,024	1,519	187,830
Sales and services.....	—	—	—	—	32,400	32,400
Sale, rental and lease of property.....	—	—	—	—	529	529
Fees, licenses and fines.....	—	—	—	2,025	4,831	6,856
Contributions.....	883	—	26,265	—	2,472	29,620
Funds escheated.....	—	20,061	—	—	—	20,061
Miscellaneous.....	—	—	—	—	499	499
Total revenues.....	<u>503,477</u>	<u>27,390</u>	<u>99,223</u>	<u>12,198</u>	<u>42,678</u>	<u>684,966</u>
Expenditures:						
Current:						
General government.....	—	3,958	2,036	—	972	6,966
Education.....	—	—	—	—	17,900	17,900
Health and human services.....	—	—	—	—	2,436	2,436
Environment and natural resources.....	—	—	—	10,366	320	10,686
Public safety and corrections.....	—	—	—	—	29,922	29,922
Agriculture.....	—	—	—	—	4,903	4,903
Claims and benefits.....	421,711	—	25,999	—	1,593	449,303
Total expenditures.....	<u>421,711</u>	<u>3,958</u>	<u>28,035</u>	<u>10,366</u>	<u>58,046</u>	<u>522,116</u>
Excess revenues over expenditures.....	<u>81,766</u>	<u>23,432</u>	<u>71,188</u>	<u>1,832</u>	<u>(15,368)</u>	<u>162,850</u>
Other Financing Sources (Uses):						
Operating transfers in.....	613	—	—	—	18,286	18,899
Operating transfers out.....	(13,940)	—	—	—	(2,157)	(16,097)
Operating transfers to component units.....	—	(14,531)	—	—	(46)	(14,577)
Total other financing sources (uses).....	<u>(13,327)</u>	<u>(14,531)</u>	<u>—</u>	<u>—</u>	<u>16,083</u>	<u>(11,775)</u>
Excess of revenues and other expenditures and other uses.....	68,439	8,901	71,188	1,832	715	151,075
Fund balances—July 1.....	1,540,640	205,127	490,111	12,220	35,081	2,283,179
Restatements.....	—	15,778	—	—	(7)	15,771
Increase (decrease) in reserve for inventories.....	—	—	—	—	113	113
Fund balances—June 30.....	<u>\$ 1,609,079</u>	<u>\$ 229,806</u>	<u>\$ 561,299</u>	<u>\$ 14,052</u>	<u>\$ 35,902</u>	<u>\$ 2,450,138</u>

**NONEXPENDABLE TRUST FUNDS
COMBINING BALANCE SHEET**

June 30, 1999

Exhibit F-4

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
ASSETS						
Cash and cash equivalents.....	\$ 3,270	\$ 65	\$ 111	\$ 134,871	\$ 7,174	\$ 145,491
Investments.....	1,836	5,707	46,128	71,668	3,326	128,665
Receivables:						
Accounts receivable.....	—	—	—	—	5	5
Intergovernmental receivable.....	—	—	—	122	—	122
Interest receivable.....	35	—	1	1,814	23	1,873
Notes receivable.....	727	15	—	261,651	106	262,499
Total Assets.....	<u>\$ 5,868</u>	<u>\$ 5,787</u>	<u>\$ 46,240</u>	<u>\$ 470,126</u>	<u>\$ 10,634</u>	<u>\$ 538,655</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ —	\$ —	\$ —	\$ 15	\$ —	\$ 15
Accrued payroll.....	—	—	—	—	—	—
Intergovernmental payables.....	—	—	—	106	—	106
Obligations under securities lending.....	1,836	562	4,879	71,668	3,326	82,271
Due to other funds.....	—	—	1	1	—	2
Total Liabilities.....	<u>1,836</u>	<u>562</u>	<u>4,880</u>	<u>71,790</u>	<u>3,326</u>	<u>82,394</u>
Fund Balances:						
Reserved for:						
Notes receivable.....	727	—	—	258,710	106	259,543
Loan and grant commitments.....	—	5,225	—	105,650	1,363	112,238
Wildlife endowment.....	—	—	41,318	—	—	41,318
Other reserves.....	—	—	—	—	26	26
Unreserved:						
Undesignated.....	3,305	—	42	33,976	5,813	43,136
Total Fund Balances.....	<u>4,032</u>	<u>5,225</u>	<u>41,360</u>	<u>398,336</u>	<u>7,308</u>	<u>456,261</u>
Total Liabilities and Fund Balances.....	<u>\$ 5,868</u>	<u>\$ 5,787</u>	<u>\$ 46,240</u>	<u>\$ 470,126</u>	<u>\$ 10,634</u>	<u>\$ 538,655</u>

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

For the Fiscal Year Ended June 30, 1999

Exhibit F-5

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
Operating Revenues:						
Sales and services.....	\$ —	\$ —	\$ 78	\$ 917	\$ —	\$ 995
Federal funds.....	—	—	—	20,583	3,922	24,505
Investment earnings.....	269	129	740	8,978	198	10,314
Interest earnings on loans.....	45	—	—	8,807	—	8,852
Fees, licenses and fines.....	—	—	1,597	—	14	1,611
Contributions.....	—	43	25	—	—	68
Miscellaneous.....	—	—	—	—	115	115
Total operating revenues.....	<u>314</u>	<u>172</u>	<u>2,440</u>	<u>39,285</u>	<u>4,249</u>	<u>46,460</u>
Operating Expenses:						
Personal services.....	—	—	—	2,215	—	2,215
Supplies and materials.....	—	—	—	16	—	16
Services.....	—	8	—	241	—	249
Interest.....	83	31	280	2,748	60	3,202
Grants to local governments.....	—	—	—	802	7	809
Other expenses:						
Scholarships.....	—	391	—	—	—	391
Fixed charges.....	—	—	—	11	6	17
Capital outlay.....	—	—	—	288	—	288
Other.....	—	—	—	189	—	189
Total operating expenses.....	<u>83</u>	<u>430</u>	<u>280</u>	<u>6,510</u>	<u>73</u>	<u>7,376</u>
Operating income (loss).....	<u>231</u>	<u>(258)</u>	<u>2,160</u>	<u>32,775</u>	<u>4,176</u>	<u>39,084</u>
Operating Transfers:						
Transfers in.....	—	—	—	7,432	—	7,432
Transfers out.....	—	—	(2,025)	(208)	(46)	(2,279)
Total operating transfers in (out).....	<u>—</u>	<u>—</u>	<u>(2,025)</u>	<u>7,224</u>	<u>(46)</u>	<u>5,153</u>
Net income (loss).....	231	(258)	135	39,999	4,130	44,237
Fund balances — July 1.....	3,801	5,510	41,225	358,337	3,178	412,051
Restatements.....	—	(27)	—	—	—	(27)
Fund balances — June 30.....	<u>\$ 4,032</u>	<u>\$ 5,225</u>	<u>\$ 41,360</u>	<u>\$ 398,336</u>	<u>\$ 7,308</u>	<u>\$ 456,261</u>

**NONEXPENDABLE TRUST FUNDS
COMBINING STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 1999

Exhibit F-6

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
Cash Provided From (Used For)						
Operations:						
Operating income (loss).....	\$ 231	\$ (258)	\$ 2,160	\$ 32,775	\$ 4,176	\$ 39,084
Adjustments to reconcile operating income to net cash flows from operating activities:						
Investment earnings.....	(269)	(129)	(740)	(8,978)	(198)	(10,314)
Securities lending fees.....	83	31	280	2,748	60	3,202
Mortgage/loan/note principal repayments.....	210	—	—	18,485	—	18,695
Mortgages/loans/notes issued.....	(400)	—	—	(24,649)	(4)	(25,053)
Restatements and adjustments to cash.....	—	—	—	(1)	—	(1)
(Increases) decreases in assets:						
Receivables.....	(1)	—	—	(252)	(3)	(256)
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities.....	—	—	—	54	—	54
Due to other funds.....	—	—	1	1	—	2
Total cash provided from (used for) operations.....	<u>(146)</u>	<u>(356)</u>	<u>1,701</u>	<u>20,183</u>	<u>4,031</u>	<u>25,413</u>
Cash Provided From (Used For)						
Noncapital Financing Activities:						
Operating transfers in.....	—	—	—	7,432	—	7,432
Operating transfers out.....	—	—	(2,025)	(208)	(46)	(2,279)
Total cash provided from (used for) noncapital financing activities.....	<u>—</u>	<u>—</u>	<u>(2,025)</u>	<u>7,224</u>	<u>(46)</u>	<u>5,153</u>
Cash Provided From (Used For)						
Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	386	—	—	—	386
Redemptions from the State Treasurer Long-Term Investment Portfolio.....	—	345	1,775	—	—	2,120
Purchase of non-State Treasurer investments.....	—	(375)	—	—	—	(375)
Purchase into State Treasurer Long-Term Investment Portfolio.....	—	—	(1,391)	—	—	(1,391)
Investment earnings.....	187	54	10	6,083	118	6,452
Total cash provided from (used for) investment activities.....	<u>187</u>	<u>410</u>	<u>394</u>	<u>6,083</u>	<u>118</u>	<u>7,192</u>
Net increase (decrease) in cash and cash equivalents.....	41	54	70	33,490	4,103	37,758
Cash and cash equivalents at July 1.....	3,229	11	41	101,381	3,071	107,733
Cash and cash equivalents at June 30.....	<u>\$ 3,270</u>	<u>\$ 65</u>	<u>\$ 111</u>	<u>\$ 134,871</u>	<u>\$ 7,174</u>	<u>\$ 145,491</u>
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions (loss) from the State Treasurer Long-Term Investment Portfolio.....	\$ —	\$ (45)	\$ 33	\$ —	\$ —	\$ (12)
Assets acquired through the assumption of a liability.....	1,836	562	4,879	71,668	3,326	82,271

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AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Fiscal Year Ended June 30, 1999

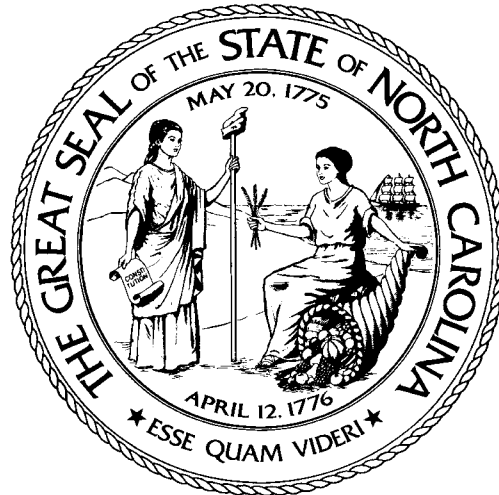
(Dollars in Thousands)

	<u>Balance, July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1999</u>
Local Sales Tax Collections				
ASSETS				
Cash and cash equivalents.....	\$ 376,680	\$ 1,533,129	\$ 1,495,483	\$ 414,326
Receivables:				
Taxes receivable.....	96,967	113,016	96,967	113,016
Due from other funds.....	4,254	6,554	4,254	6,554
Total Assets.....	<u>\$ 477,901</u>	<u>\$ 1,652,699</u>	<u>\$ 1,596,704</u>	<u>\$ 533,896</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 477,901	\$ 1,652,699	\$ 1,596,704	\$ 533,896
Total Liabilities.....	<u>\$ 477,901</u>	<u>\$ 1,652,699</u>	<u>\$ 1,596,704</u>	<u>\$ 533,896</u>
Deposits of Insurance Carriers Fund				
ASSETS				
Cash and cash equivalents.....	\$ 225	\$ 957	\$ 1,116	\$ 66
Investments.....	150	—	112	38
Receivables:				
Interest receivable.....	—	1	1	—
Sureties.....	482,499	13,883	22,001	474,381
Total Assets.....	<u>\$ 482,874</u>	<u>\$ 14,841</u>	<u>\$ 23,230</u>	<u>\$ 474,485</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Obligations under securities lending.....	\$ 150	\$ —	\$ 113	\$ 37
Deposits payable.....	482,724	14,278	22,554	474,448
Total Liabilities.....	<u>\$ 482,874</u>	<u>\$ 14,278</u>	<u>\$ 22,667</u>	<u>\$ 474,485</u>
Clerks of Court				
ASSETS				
Cash and cash equivalents.....	\$ 150,987	\$ 1,436,718	\$ 1,426,049	\$ 161,656
Investments.....	66,534	31,248	27,947	69,835
Receivables:				
Accounts receivable.....	400	1,404	1,311	493
Due from other funds.....	321	4,750	4,746	325
Sureties.....	24,919	20,256	20,794	24,381
Total Assets.....	<u>\$ 243,161</u>	<u>\$ 1,494,376</u>	<u>\$ 1,480,847</u>	<u>\$ 256,690</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 4,328	\$ 93,677	\$ 93,030	\$ 4,975
Due to other funds.....	1,878	162,993	162,385	2,486
Deposits payable.....	236,955	1,002,296	990,022	249,229
Total Liabilities.....	<u>\$ 243,161</u>	<u>\$ 1,258,966</u>	<u>\$ 1,245,437</u>	<u>\$ 256,690</u>

Exhibit F-7

	Balance, July 1, 1998	Additions	Deductions	Balance, June 30, 1999
Departmental Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 76,283	\$ 4,705,229	\$ 4,688,234	\$ 93,278
Investments.....	16,692	—	4,355	12,337
Receivables:				
Accounts receivable.....	1,421	86,038	85,350	2,109
Intergovernmental receivables.....	6,238	—	6,238	—
Interest receivable.....	3	7	5	5
Due from other funds.....	63	86	99	50
Inventories.....	301	—	—	301
Sureties.....	1,454	1,051	1,454	1,051
Total Assets.....	<u>\$ 102,455</u>	<u>\$ 4,792,411</u>	<u>\$ 4,785,735</u>	<u>\$ 109,131</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 215	\$ 60,468	\$ 57,481	\$ 3,202
Intergovernmental payables.....	48,845	682,374	681,374	49,845
Obligations under securities lending.....	16,144	—	4,345	11,799
Due to other funds.....	9,484	705,009	703,346	11,147
Claims and benefits payable.....	13,976	1,780,540	1,778,464	16,052
Deposits payable.....	13,791	27,586	24,291	17,086
Total Liabilities.....	<u>\$ 102,455</u>	<u>\$ 3,255,977</u>	<u>\$ 3,249,301</u>	<u>\$ 109,131</u>
Total Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 604,175	\$ 7,676,033	\$ 7,610,882	\$ 669,326
Investments.....	83,376	31,248	32,414	82,210
Receivables:				
Taxes receivable.....	96,967	113,016	96,967	113,016
Accounts receivable.....	1,821	87,442	86,661	2,602
Intergovernmental receivables.....	6,238	—	6,238	—
Interest receivable.....	3	8	6	5
Due from other funds.....	4,638	11,390	9,099	6,929
Due from component units.....	—	—	—	—
Inventories.....	301	—	—	301
Sureties.....	508,872	35,190	44,249	499,813
Total Assets.....	<u>\$ 1,306,391</u>	<u>\$ 7,954,327</u>	<u>\$ 7,886,516</u>	<u>\$ 1,374,202</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 215	\$ 60,468	\$ 57,481	\$ 3,202
Intergovernmental payables.....	531,074	2,428,750	2,371,108	588,716
Obligations under securities lending.....	16,294	—	4,458	11,836
Due to other funds.....	11,362	868,002	865,731	13,633
Claims and benefits payable.....	13,976	1,780,540	1,778,464	16,052
Deposits payable.....	733,470	1,044,160	1,036,867	740,763
Total Liabilities.....	<u>\$ 1,306,391</u>	<u>\$ 6,181,920</u>	<u>\$ 6,114,109</u>	<u>\$ 1,374,202</u>

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GENERAL FIXED ASSETS ACCOUNT GROUP

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

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

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

**SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION**

June 30, 1999

Exhibit G-1

(Dollars in Thousands)

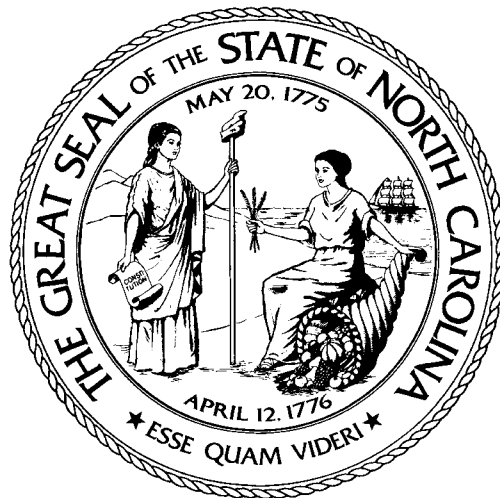
	<u>Land</u>	<u>Buildings</u>	<u>Other Structures and Improvements</u>	<u>Machinery and Equipment</u>	<u>Art, Literature and Artifacts</u>	<u>Construction in Progress</u>	<u>Totals</u>
BY FUNCTION							
General government.....	\$ 52,760	\$ 141,513	\$ 26,826	\$ 35,973	\$ 39,139	\$ 145,355	\$ 441,566
Education.....	1,348	51,387	70	9,392	1,013	11,697	74,907
Health and human services...	3,182	268,146	43,090	84,661	1,482	67,452	468,013
Economic development.....	705	23,345	50	12,578	—	—	36,678
Environment and natural resources.....	177,335	98,084	19,879	94,537	147	24,368	414,350
Public safety, corrections, and regulation.....	22,249	770,609	56,640	207,836	1,497	25,578	1,084,409
Transportation.....	21,553	125,242	—	570,354	—	20,892	738,041
Agriculture.....	21,944	51,078	693	26,089	133	25,162	125,099
Total general fixed assets.....	<u>\$ 301,076</u>	<u>\$ 1,529,404</u>	<u>\$ 147,248</u>	<u>\$ 1,041,420</u>	<u>\$ 43,411</u>	<u>\$ 320,504</u>	<u>\$ 3,383,063</u>

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1999

*Exhibit G-2**(Dollars in Thousands)*

BY FUNCTION	Balance July 1, 1998	Prior Year Adjustments	Transfers (To) From Other Funds	Additions	Deletions	Balance June 30, 1999
General government.....	\$ 482,137	\$ 22,648	\$ (104,465)	\$ 42,350	\$ 1,104	\$ 441,566
Education.....	70,466	379	(9)	4,311	240	74,907
Health and human services..	454,771	(6,250)	(8,479)	32,448	4,477	468,013
Economic development.....	36,138	515	—	52	27	36,678
Environment and natural resources.....	371,431	(485)	5	47,081	3,682	414,350
Public safety, corrections, and regulation.....	955,081	3,622	102,924	37,773	14,991	1,084,409
Transportation.....	692,545	(897)	(8)	82,419	36,018	738,041
Agriculture.....	115,980	1,339	—	8,310	530	125,099
Total general fixed assets.....	<u>\$ 3,178,549</u>	<u>\$ 20,871</u>	<u>\$ (10,032)</u>	<u>\$ 254,744</u>	<u>\$ 61,069</u>	<u>\$ 3,383,063</u>



GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP

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

STATEMENT OF GENERAL LONG-TERM OBLIGATIONS

June 30, 1999

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

In General Fund.....	\$ 145
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**Amount to be Provided for Retirement
of General Long-Term Obligations:**

By General Fund.....	2,806,115
By Special Revenue Funds.....	289,492
By Expendable Trust Funds.....	226
By Nonexpendable Trust Funds.....	79
Total available and to be provided.....	<u>\$ 3,096,057</u>

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

General obligation bonds payable.....	\$ 2,451,973
---------------------------------------	--------------

Other Payables:

Tax judgements payable.....	440,000
Notes payable.....	3,270
Deferred death benefit payable.....	145
Obligations for workers' compensation.....	6,787
Capital leases payable.....	904
Accrued vacation leave.....	192,978
Total general long-term obligations.....	<u>\$ 3,096,057</u>

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 1999

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>									
	Total General Obligation Bonds	<i>Total General Fund</i>	Capital Improve- ment Bonds Series 1989 5-1-89 6.5 - 6.9%	Capital Improve- ment Bonds Series A 3-1-91 5.75 - 6.0%	Capital Improve- ment Bonds Series 1991 10-1-91 5.3 - 5.6%	Prison and Youth Services Facilities Series A 3-1-92 5.9 - 6.2%	Prison and Youth Services Facilities Series B 10-1-93 2.5 - 4.5%	Public Improve- ment Refunding Series 1993 10-1-93 2.4 - 5.5%		
			[*]							
Bonds Authorized and Issued:										
Ch. 1048, 1987 session law....	\$ 20,499	\$ 20,499	\$ 20,499	\$ —	\$ —	\$ —	\$ —	\$ —		
Ch. 933, 1989 session law....	75,000	75,000	—	75,000	—	—	—	—		
Ch. 935, 1989 session law....	200,000	200,000	—	—	—	112,500	87,500	—		
Ch. 760, 1991 session law....	45,000	45,000	—	—	45,000	—	—	—		
Ch. 542, 1993 session law....	740,000	740,000	—	—	—	—	—	—		
Ch. 631, 1995 session law....	1,350,000	1,350,000	—	—	—	—	—	—		
General Statute Ch. 142.....	170,450	170,450	—	—	—	—	—	61,025		
Ch. 590, 1995 session law....	250,000	—	—	—	—	—	—	—		
Total bonds authorized and issued.....	2,850,949	2,600,949	20,499	75,000	45,000	112,500	87,500	61,025		
Accretion.....	10,924	10,924	10,924	—	—	—	—	—		
Bonds retired.....	326,300	309,625	17,990	50,200	26,300	26,500	14,600	39,105		
Partial defeasances.....	83,600	83,600	—	—	—	59,600	—	—		
Bonds outstanding— June 30, 1999.....	<u>\$ 2,451,973</u>	<u>\$ 2,218,648</u>	<u>\$ 13,433</u>	<u>\$ 24,800</u>	<u>\$ 18,700</u>	<u>\$ 26,400</u>	<u>\$ 72,900</u>	<u>\$ 21,920</u>		
Bond Maturity As Follows:										
1999-00.....	\$ 142,797	\$ 126,122	\$ 1,787	\$ 8,300	\$ 6,200	\$ 8,800	\$ 6,800	\$ 21,920		
2000-01.....	142,697	126,022	1,672	8,300	6,200	8,800	8,800	—		
2001-02.....	142,673	125,998	1,563	8,200	6,300	8,800	8,800	—		
2002-03.....	142,607	125,932	1,462	—	—	—	8,800	—		
2003-04.....	142,409	125,734	1,364	—	—	—	8,800	—		
2004-05.....	142,725	126,050	1,275	—	—	—	8,800	—		
2005-06.....	142,498	125,823	1,188	—	—	—	8,800	—		
2006-07.....	142,280	125,605	1,110	—	—	—	8,800	—		
2007-08.....	142,265	125,590	1,040	—	—	—	4,500	—		
2008-09.....	142,047	125,372	972	—	—	—	—	—		
2009-10.....	141,725	125,050	—	—	—	—	—	—		
2010-11.....	141,700	125,025	—	—	—	—	—	—		
2011-12.....	141,675	125,000	—	—	—	—	—	—		
2012-13.....	141,530	124,980	—	—	—	—	—	—		
2013-14.....	124,965	124,965	—	—	—	—	—	—		
2014-15.....	124,950	124,950	—	—	—	—	—	—		
2015-16.....	124,930	124,930	—	—	—	—	—	—		
2016-17.....	77,000	77,000	—	—	—	—	—	—		
2017-18.....	8,500	8,500	—	—	—	—	—	—		
Total Bonds Outstanding.....	<u>\$ 2,451,973</u>	<u>\$ 2,218,648</u>	<u>\$ 13,433</u>	<u>\$ 24,800</u>	<u>\$ 18,700</u>	<u>\$ 26,400</u>	<u>\$ 72,900</u>	<u>\$ 21,920</u>		

[*] Capital
Appreciation
Bonds

Payable from General Fund Revenues

Clean Water Refunding Series 1993 10-1-93 3.0 - 5.0%	Prison and Youth Services Refunding Series C 10-15-93 4.2 - 4.8%	Capital Improvement Bonds Series 1994A 2-1-94 4.6 - 4.75%	Clean Water Series 1994A 10-1-94 5.7 - 5.8%	Clean Water Series 1994B 11-1-94 4.7 - 5.0%	Clean Water Series 1995A 6-1-95 5.0 - 5.25%	Clean Water Series 1995B 7-1-95 4.25-4.3%	Capital Improvement Bonds Series 1997 1-1-97 4.8-5.1%	Public School Building Series 1997A 3-1-97 5.1-5.2%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	400,000	40,000	20,000	60,000	25,000	195,000	—
—	—	—	—	—	—	—	—	450,000
16,045	67,475	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
16,045	67,475	400,000	40,000	20,000	60,000	25,000	195,000	450,000
—	—	—	—	—	—	—	—	—
9,550	3,380	35,500	6,000	16,000	6,000	20,000	6,000	16,000
—	—	—	24,000	—	—	—	—	—
<u>\$ 6,495</u>	<u>\$ 64,095</u>	<u>\$ 364,500</u>	<u>\$ 10,000</u>	<u>\$ 4,000</u>	<u>\$ 54,000</u>	<u>\$ 5,000</u>	<u>\$ 189,000</u>	<u>\$ 434,000</u>
\$ 4,045	\$ 615	\$ 8,000	\$ 2,000	\$ 4,000	\$ 3,000	\$ 5,000	\$ 3,000	\$ 8,000
2,450	640	28,000	2,000	—	3,000	—	12,000	9,500
—	670	28,000	2,000	—	3,000	—	12,000	12,000
—	9,500	28,000	2,000	—	3,000	—	12,000	26,500
—	9,390	28,000	2,000	—	3,000	—	12,000	26,500
—	9,285	28,000	—	—	3,000	—	12,000	27,000
—	9,175	28,000	—	—	3,000	—	12,000	27,000
—	9,060	28,000	—	—	3,000	—	12,000	27,000
—	8,940	28,000	—	—	3,000	—	12,000	31,500
—	6,820	28,000	—	—	3,000	—	12,000	32,000
—	—	28,000	—	—	3,000	—	12,000	32,000
—	—	28,000	—	—	3,000	—	12,000	32,000
—	—	28,000	—	—	3,000	—	12,000	32,000
—	—	20,500	—	—	3,000	—	12,000	32,000
—	—	—	—	—	3,000	—	12,000	32,000
—	—	—	—	—	3,000	—	12,000	32,000
—	—	—	—	—	3,000	—	6,000	15,000
—	—	—	—	—	3,000	—	—	—
—	—	—	—	—	—	—	—	—
<u>\$ 6,495</u>	<u>\$ 64,095</u>	<u>\$ 364,500</u>	<u>\$ 10,000</u>	<u>\$ 4,000</u>	<u>\$ 54,000</u>	<u>\$ 5,000</u>	<u>\$ 189,000</u>	<u>\$ 434,000</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

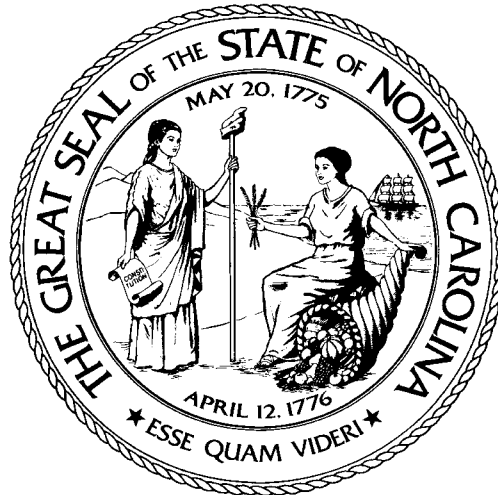
June 30, 1999

Exhibit H-2

(Dollars in Thousands)

	Payable from General Fund Revenues			Payable from Highway Trust Fund Revenues
	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%	Highway Series 1997A 11/1/97 4.5-5.0%
Bonds Authorized and Issued:				
Ch. 1048, 1987 session law.....	\$ —	\$ —	\$ —	\$ —
Ch. 933, 1989 session law.....	—	—	—	—
Ch. 935, 1989 session law.....	—	—	—	—
Ch. 760, 1991 session law.....	—	—	—	—
Ch. 542, 1993 session law.....	—	—	—	—
Ch. 631, 1995 session law.....	450,000	450,000	—	—
General Statute Ch. 142.....	—	—	25,905	—
Ch. 590, 1995 session law.....	—	—	—	250,000
Total bonds authorized and issued.....	450,000	450,000	25,905	250,000
Accretion.....	—	—	—	—
Bonds retired.....	16,000	—	500	16,675
Partial defeasances.....	—	—	—	—
Bonds outstanding— June 30, 1999.....	<u>\$ 434,000</u>	<u>\$ 450,000</u>	<u>\$ 25,405</u>	<u>\$ 233,325</u>
Bond Maturity As Follows:				
1999-00.....	\$ 16,000	\$ 18,500	\$ 155	\$ 16,675
2000-01.....	16,000	18,500	160	16,675
2001-02.....	16,000	18,500	165	16,675
2002-03.....	16,000	18,500	170	16,675
2003-04.....	16,000	18,500	180	16,675
2004-05.....	16,000	18,500	2,190	16,675
2005-06.....	16,000	18,500	2,160	16,675
2006-07.....	16,000	18,500	2,135	16,675
2007-08.....	16,000	18,500	2,110	16,675
2008-09.....	22,000	18,500	2,080	16,675
2009-10.....	29,500	18,500	2,050	16,675
2010-11.....	29,500	18,500	2,025	16,675
2011-12.....	29,500	18,500	2,000	16,675
2012-13.....	37,000	18,500	1,980	16,550
2013-14.....	57,500	18,500	1,965	—
2014-15.....	57,500	18,500	1,950	—
2015-16.....	27,500	71,500	1,930	—
2016-17.....	—	74,000	—	—
2017-18.....	—	8,500	—	—
Total Bonds Outstanding.....	<u>\$ 434,000</u>	<u>\$ 450,000</u>	<u>\$ 25,405</u>	<u>\$ 233,325</u>

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COMPONENT UNITS:
PROPRIETARY FUNDS
COLLEGE AND UNIVERSITY FUNDS

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

Component units are comprised of the following entities:

University of North Carolina System

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

Proprietary Funds

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

Community Colleges

Alamance Comm. College
 Anson Comm. College
 Asheville-Buncombe Technical Comm. College
 Beaufort County Comm. College
 Bladen Community College
 Blue Ridge Comm. College
 Brunswick Comm. College
 Caldwell Comm. College and Technical Institute
 Cape Fear Comm. College
 Carteret Comm. College
 Catawba Valley Comm. College
 Central Carolina Comm. College
 Central Piedmont Comm. College
 Cleveland Comm. College
 Coastal Carolina Comm. College
 College of The Albemarle
 Craven Comm. College
 Davidson County Comm. College
 Durham Technical Comm. College
 Edgecombe Comm. College
 Fayetteville Technical Comm. College
 Forsyth Technical Comm. College
 Gaston College
 Guilford Technical Comm. College
 Halifax Comm. College
 Haywood Comm. College
 Isothermal Comm. College
 James Sprunt Comm. College
 Johnston Comm. College
 Lenoir Comm. College
 Martin Comm. College
 Mayland Comm. College
 McDowell Technical Comm. College
 Mitchell Comm. College
 Montgomery Comm. College
 Nash Comm. College
 Pamlico Comm. College
 Piedmont Comm. College
 Pitt Comm. College
 Randolph Comm. College
 Richmond Comm. College
 Roanoke-Chowan Comm. College
 Robeson Comm. College
 Rockingham Comm. College
 Rowan-Cabarrus Comm. College
 Sampson Comm. College
 Sandhills Comm. College
 Southeastern Comm. College
 Southwestern Comm. College
 Stanly Comm. College
 Surry Comm. College
 Tri-County Comm. College
 Vance-Granville Comm. College
 Wake Technical Comm. College
 Wayne Comm. College
 Western Piedmont Comm. College
 Wilkes Comm. College
 Wilson Technical Comm. College

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

June 30, 1999

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority	N.C. Global TransPark Authority	MCNC
ASSETS							
Current Assets:							
Cash and cash equivalents.....	\$ 24,670	\$ 174,107	\$ 15,755	\$ 675	\$ 263	\$ 3,763	\$ —
Investments.....	7,701	283,327	22,082	5,239	185	25,739	2,065
Receivables:							
Accounts receivable.....	1,575	297	4,762	184	—	1,869	5,143
Intergovernmental receivables.....	109	10,463	—	85	—	—	—
Interest receivable.....	10,263	11,584	171	—	2	13	—
Due from primary government.....	—	14,531	—	—	—	—	—
Notes receivable.....	—	75,372	—	—	—	—	166
Inventories.....	—	5	744	—	—	—	—
Prepaid items.....	—	299	381	15	—	—	1,893
Total current assets.....	<u>44,318</u>	<u>569,985</u>	<u>43,895</u>	<u>6,198</u>	<u>450</u>	<u>31,384</u>	<u>9,267</u>
Noncurrent Assets:							
Investments.....	263,512	—	—	—	—	—	—
Accounts receivable.....	—	—	—	—	—	—	—
Notes receivable.....	874,944	525,109	—	—	—	—	—
Prepaid items.....	—	3,701	193	—	—	—	—
Goodwill.....	—	—	—	—	—	—	460
Total noncurrent assets.....	<u>1,138,456</u>	<u>528,810</u>	<u>193</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>460</u>
Fixed Assets:							
Land.....	—	—	12,807	—	—	6,923	—
Buildings.....	—	—	110,816	339	—	6,689	32,889
Other structures and improvements.....	—	—	39,741	7,848	—	7,815	—
Machinery and equipment.....	944	1,580	51,716	—	16	1,635	14,572
Construction in progress.....	—	—	1,782	—	—	9,136	—
Accumulated depreciation.....	(496)	(606)	(94,799)	(326)	(16)	(5,835)	(37,496)
Total fixed assets.....	<u>448</u>	<u>974</u>	<u>122,063</u>	<u>7,861</u>	<u>—</u>	<u>26,363</u>	<u>9,965</u>
Total Assets.....	<u>\$ 1,183,222</u>	<u>\$ 1,099,769</u>	<u>\$ 166,151</u>	<u>\$ 14,059</u>	<u>\$ 450</u>	<u>\$ 57,747</u>	<u>\$ 19,692</u>

Exhibit I-1

N.C. Biotechnology Center	Rural Economic Development Center	N.C. Regional Economic Development Commissions	N.C. Agricultural Finance Authority	N.C. Ports Railway Commission	N.C. Partnership for Children Inc.	N.C. Rural Rehabilitation Corporation	Totals
\$ 875	\$ 6,194	\$ 1,116	\$ 2,910	\$ 1,042	\$ 2,420	\$ 2,411	\$ 236,201
25,730	16,098	1,488	1,664	576	10	483	392,387
112	163	25	—	42	9,696	—	23,868
—	542	—	—	—	—	—	11,199
165	95	2	42	—	1	153	22,491
—	—	—	—	—	—	—	14,531
3,000	454	—	2,293	—	—	5,421	86,706
—	—	—	2	—	—	—	751
—	13	13	—	10	64	—	2,688
<u>29,882</u>	<u>23,559</u>	<u>2,644</u>	<u>6,911</u>	<u>1,670</u>	<u>12,191</u>	<u>8,468</u>	<u>790,822</u>
—	—	—	—	—	—	—	263,512
—	—	—	—	—	3,108	—	3,108
1,256	—	—	—	—	—	—	1,401,309
—	—	—	—	—	—	—	3,894
—	—	—	—	—	—	—	460
<u>1,256</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,108</u>	<u>—</u>	<u>1,672,283</u>
—	—	—	—	525	—	—	20,255
7,271	1,638	150	—	84	—	125	160,001
—	—	151	—	—	21	—	55,576
1,614	298	847	—	1,061	32	—	74,315
—	—	—	—	154	—	—	11,072
<u>(3,197)</u>	<u>(287)</u>	<u>(554)</u>	<u>—</u>	<u>(841)</u>	<u>(24)</u>	<u>(14)</u>	<u>(144,491)</u>
<u>5,688</u>	<u>1,649</u>	<u>594</u>	<u>—</u>	<u>983</u>	<u>29</u>	<u>111</u>	<u>176,728</u>
<u>\$ 36,826</u>	<u>\$ 25,208</u>	<u>\$ 3,238</u>	<u>\$ 6,911</u>	<u>\$ 2,653</u>	<u>\$ 15,328</u>	<u>\$ 8,579</u>	<u>\$ 2,639,833</u>

Continued

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

June 30, 1999

(Dollars in Thousands)

	<u>N.C. Housing Finance Agency</u>	<u>State Education Assistance Authority</u>	<u>N.C. State Ports Authority</u>	<u>North Carolina Railroad Company</u>	<u>N.C. Low Level Radioactive Waste Management Authority</u>	<u>N.C. Global TransPark Authority</u>	<u>MCNC</u>
LIABILITIES AND FUND EQUITY:							
Liabilities:							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 14,254	\$ 1,542	\$ 1,275	\$ 72	\$ 19	\$ 119	\$ 4,655
Accrued payroll.....	—	89	484	—	—	—	—
Intergovernmental payable.....	744	74	—	—	—	—	—
Obligations under securities lending.....	7,701	108,244	—	—	185	4,752	—
Due to primary government.....	3	—	—	1,843	—	710	—
Contracts payable.....	—	—	—	—	—	—	—
Notes payable.....	—	21,596	60	—	—	—	331
Claims payable.....	—	—	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—	—	926
Bonds payable.....	77,132	—	1,110	—	—	—	—
Interest payable.....	13,987	2,938	82	1,016	—	—	—
Accrued vacation leave.....	219	84	895	—	31	33	—
Deferred revenue.....	—	—	615	—	—	3	2,319
Total current liabilities.....	<u>114,040</u>	<u>134,567</u>	<u>4,521</u>	<u>2,931</u>	<u>235</u>	<u>5,617</u>	<u>8,231</u>
Noncurrent Liabilities:							
Accounts payable and accrued liabilities:							
Advance from primary government.....	—	—	—	61,000	—	25,000	—
Contracts payable.....	—	—	—	—	—	—	—
Notes payable.....	—	—	614	—	—	—	463
Claims payable.....	—	10,922	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—	—	1,263
Bonds payable.....	924,005	521,477	11,760	—	—	—	—
Total noncurrent liabilities.....	<u>924,005</u>	<u>532,399</u>	<u>12,374</u>	<u>61,000</u>	<u>—</u>	<u>25,000</u>	<u>1,726</u>
Total Liabilities.....	<u>1,038,045</u>	<u>666,966</u>	<u>16,895</u>	<u>63,931</u>	<u>235</u>	<u>30,617</u>	<u>9,957</u>
Fund Equity:							
Contributed capital.....	—	—	131,536	1,837	33,599	—	—
Retained earnings.....	145,177	432,803	17,720	(51,709)	(33,384)	27,130	9,735
Total Fund Equity.....	<u>145,177</u>	<u>432,803</u>	<u>149,256</u>	<u>(49,872)</u>	<u>215</u>	<u>27,130</u>	<u>9,735</u>
Total Liabilities and Fund Equity.....	<u>\$ 1,183,222</u>	<u>\$ 1,099,769</u>	<u>\$ 166,151</u>	<u>\$ 14,059</u>	<u>\$ 450</u>	<u>\$ 57,747</u>	<u>\$ 19,692</u>

Exhibit I-1

<u>N.C. Biotechnology Center</u>	<u>Rural Economic Development Center</u>	<u>Regional Economic Development Commissions</u>	<u>N.C. Agricultural Finance Authority</u>	<u>N.C. Ports Railway Commission</u>	<u>N.C. Partnership for Children Inc.</u>	<u>N.C. Rural Rehabilitation Corporation</u>	<u>Totals</u>
\$ 132	\$ 487	\$ 134	\$ —	\$ 41	\$ 821	\$ —	\$ 23,551
—	—	2	—	—	10	—	585
—	—	—	—	—	—	277	1,095
—	—	—	1,664	576	—	483	123,605
—	—	—	—	—	6,330	—	8,886
5,839	—	—	—	—	—	—	5,839
237	522	—	—	79	—	—	22,825
—	—	—	—	—	—	16	16
—	—	3	—	27	—	—	956
—	—	—	—	—	—	—	78,242
—	12	—	—	—	—	—	18,035
—	75	121	19	12	90	—	1,579
1,499	—	1	—	10	6,446	36	10,929
<u>7,707</u>	<u>1,096</u>	<u>261</u>	<u>1,683</u>	<u>745</u>	<u>13,697</u>	<u>812</u>	<u>296,143</u>
—	—	—	—	—	—	—	86,000
1,171	—	—	—	—	—	—	1,171
2,763	1,635	—	—	14	—	—	5,489
—	—	—	—	—	—	—	10,922
—	—	5	—	—	—	—	1,268
—	—	—	—	—	—	—	1,457,242
<u>3,934</u>	<u>1,635</u>	<u>5</u>	<u>—</u>	<u>14</u>	<u>—</u>	<u>—</u>	<u>1,562,092</u>
<u>11,641</u>	<u>2,731</u>	<u>266</u>	<u>1,683</u>	<u>759</u>	<u>13,697</u>	<u>812</u>	<u>1,858,235</u>
—	—	—	500	50	—	1,120	168,642
<u>25,185</u>	<u>22,477</u>	<u>2,972</u>	<u>4,728</u>	<u>1,844</u>	<u>1,631</u>	<u>6,647</u>	<u>612,956</u>
<u>25,185</u>	<u>22,477</u>	<u>2,972</u>	<u>5,228</u>	<u>1,894</u>	<u>1,631</u>	<u>7,767</u>	<u>781,598</u>
<u>\$ 36,826</u>	<u>\$ 25,208</u>	<u>\$ 3,238</u>	<u>\$ 6,911</u>	<u>\$ 2,653</u>	<u>\$ 15,328</u>	<u>\$ 8,579</u>	<u>\$ 2,639,833</u>

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

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority	N.C. Global TransPark Authority	MCNC
Operating Revenues:							
Sales and services.....	\$ —	\$ —	\$ 26,101	\$ —	\$ —	\$ —	\$ 33,354
Investment earnings.....	14,668	19,384	—	—	—	—	—
Interest earnings on loans.....	64,861	43,251	—	—	—	—	—
Rental and lease earnings.....	—	—	2,018	2,132	—	68	—
Fees, licenses and fines.....	—	—	—	—	—	—	—
Miscellaneous.....	3,985	1,431	—	—	—	269	2,887
Total operating revenues.....	<u>83,514</u>	<u>64,066</u>	<u>28,119</u>	<u>2,132</u>	<u>—</u>	<u>337</u>	<u>36,241</u>
Operating Expenses:							
Personal services.....	3,771	1,558	13,708	451	—	767	38,917
Supplies and materials.....	230	56	1,488	—	—	34	—
Services.....	5,413	10,001	4,342	599	—	1,094	—
Interest.....	63,507	31,324	—	—	—	—	—
Depreciation/amortization.....	153	468	7,557	9	—	377	—
Claims and benefits.....	—	218	27	—	—	—	—
Insurance and bonding.....	42	—	969	168	—	—	—
Other.....	348	14,984	212	199	—	127	—
Total operating expenses.....	<u>73,464</u>	<u>58,609</u>	<u>28,303</u>	<u>1,426</u>	<u>—</u>	<u>2,399</u>	<u>38,917</u>
Operating income (loss).....	<u>10,050</u>	<u>5,457</u>	<u>(184)</u>	<u>706</u>	<u>—</u>	<u>(2,062)</u>	<u>(2,676)</u>
Nonoperating Revenues							
(Expenses):							
Gain (loss) on sale of equipment.....	—	—	26	—	—	—	(683)
Investment earnings.....	—	—	881	538	30	1,853	—
Donations.....	—	—	—	—	—	—	—
Interest expense.....	—	—	(524)	(2,859)	—	(2,146)	—
Grants.....	—	2,730	—	—	—	3,714	—
Grants, aid and subsidies.....	—	(2,085)	—	—	—	—	—
Development stage expense.....	—	—	—	—	(651)	—	—
Gain (loss) on sale of investments... Miscellaneous.....	—	—	(19)	193	—	—	(229)
Total nonoperating revenues (expenses).....	<u>—</u>	<u>645</u>	<u>364</u>	<u>(2,128)</u>	<u>(621)</u>	<u>3,421</u>	<u>(912)</u>
Income (loss) before operating transfers.....	<u>10,050</u>	<u>6,102</u>	<u>180</u>	<u>(1,422)</u>	<u>(621)</u>	<u>1,359</u>	<u>(3,588)</u>
Operating Transfers:							
Transfers from component units.....	—	12,002	—	—	—	—	—
Transfers from primary government.....	2,300	14,531	—	—	—	8,446	4,500
Transfers to primary government.....	(51)	—	(1)	—	—	—	—
Total operating transfers in (out).....	<u>2,249</u>	<u>26,533</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>8,446</u>	<u>4,500</u>
Net income (loss).....	<u>12,299</u>	<u>32,635</u>	<u>179</u>	<u>(1,422)</u>	<u>(621)</u>	<u>9,805</u>	<u>912</u>
Excess of revenues over (under) expenditures from governmental operations.....	<u>(148)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund equity — July 1.....	133,026	405,626	135,312	(44,557)	(49,564)	2,128	10,909
Restatements.....	—	(5,458)	—	—	16,801	15,197	(2,086)
Increase (decrease) in contributed capital.....	—	—	13,765	(3,893)	33,599	—	—
Fund equity— June 30.....	<u>\$ 145,177</u>	<u>\$ 432,803</u>	<u>\$ 149,256</u>	<u>\$ (49,872)</u>	<u>\$ 215</u>	<u>\$ 27,130</u>	<u>\$ 9,735</u>

Exhibit I-2

N.C. Biotechnology Center	Rural Economic Development Center	N.C. Regional Economic Development Commissions	N.C. Agricultural Finance Authority	N.C. Ports Railway Commission	N.C. Partnership for Children, Inc.	N.C. Rural Rehabilitation Corporation	Totals
\$ 8,190	\$ —	\$ —	\$ 40	\$ —	\$ —	\$ —	\$ 67,685
—	—	—	297	—	—	129	34,478
77	608	—	264	—	—	297	109,358
—	—	—	—	444	—	21	4,683
—	—	—	2	—	—	—	2
326	—	—	—	—	—	—	8,898
<u>8,593</u>	<u>608</u>	<u>—</u>	<u>603</u>	<u>444</u>	<u>—</u>	<u>447</u>	<u>225,104</u>
1,979	464	1,325	282	215	1,739	55	65,231
75	5	67	2	74	138	—	2,169
64	123	1,053	44	252	1,613	5	24,603
—	15	—	56	—	—	47	94,949
354	84	181	—	84	1	4	9,272
—	—	—	—	—	—	—	245
30	6	16	—	7	7	2	1,247
1,447	86	241	63	10	417	—	18,134
<u>3,949</u>	<u>783</u>	<u>2,883</u>	<u>447</u>	<u>642</u>	<u>3,915</u>	<u>113</u>	<u>215,850</u>
<u>4,644</u>	<u>(175)</u>	<u>(2,883)</u>	<u>156</u>	<u>(198)</u>	<u>(3,915)</u>	<u>334</u>	<u>9,254</u>
—	—	—	—	308	(147)	—	(496)
1,386	315	164	—	40	142	—	5,349
—	220	734	—	—	2,253	—	3,207
—	—	—	—	(7)	—	—	(5,536)
—	736	—	—	—	124	—	7,304
(5,201)	(6,372)	(1,103)	—	—	(79,105)	(25)	(93,891)
—	—	—	—	—	—	—	(651)
—	—	—	—	—	—	—	(19)
—	205	73	64	56	101	—	463
<u>(3,815)</u>	<u>(4,896)</u>	<u>(132)</u>	<u>64</u>	<u>397</u>	<u>(76,632)</u>	<u>(25)</u>	<u>(84,270)</u>
<u>829</u>	<u>(5,071)</u>	<u>(3,015)</u>	<u>220</u>	<u>199</u>	<u>(80,547)</u>	<u>309</u>	<u>(75,016)</u>
—	—	—	—	—	—	—	12,002
10,139	12,632	2,753	134	35	80,817	1,500	137,787
—	—	—	—	—	—	—	(52)
<u>10,139</u>	<u>12,632</u>	<u>2,753</u>	<u>134</u>	<u>35</u>	<u>80,817</u>	<u>1,500</u>	<u>149,737</u>
10,968	7,561	(262)	354	234	270	1,809	74,721
—	—	—	—	—	—	—	(148)
21,671	14,916	3,234	4,874	1,778	11,332	5,958	656,643
(7,454)	—	—	—	(118)	(9,971)	—	6,911
—	—	—	—	—	—	—	43,471
<u>\$ 25,185</u>	<u>\$ 22,477</u>	<u>\$ 2,972</u>	<u>\$ 5,228</u>	<u>\$ 1,894</u>	<u>\$ 1,631</u>	<u>\$ 7,767</u>	<u>\$ 781,598</u>

COMPONENT UNITS — PROPRIETARY FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority	N.C. Global TransPark Authority	MCNC
Cash Provided From (Used For)							
Operations:							
Operating income (loss).....	\$ 10,050	\$ 5,457	\$ (184)	\$ 706	\$ —	\$ (2,062)	\$ (2,676)
Adjustments to reconcile operating income to net cash flows from operating activities:							
Depreciation/amortization.....	153	468	7,557	9	—	377	—
Investment earnings.....	(14,668)	(19,384)	—	—	—	—	—
Securities lending fees.....	963	5,003	—	—	—	—	—
Construction projects expensed.....	—	—	3	—	—	—	—
Mortgage/loan/note principal repayments.....	98,443	193,944	—	—	—	—	—
Loan sales.....	—	—	—	—	—	—	—
Mortgages/loans/notes issued.....	(142,017)	(337,547)	—	—	—	—	—
Mortgages/loans/note cancellation and writeoff.....	—	6,617	—	—	—	—	—
Allowances and uncollectible accounts.....	—	2,459	—	—	—	—	—
Restatements and adjustments to cash.....	—	—	—	(274)	—	—	—
Interest expense.....	62,544	(6,790)	—	—	—	—	—
Development stage expense.....	—	—	—	—	(690)	—	—
Nonoperating miscellaneous income (expense).....	—	—	—	193	—	—	229
(Increases) decreases in assets:							
Receivables.....	(1,735)	(5,197)	(79)	(96)	—	(1,483)	(69)
Due from primary government.....	—	(1,232)	—	—	—	—	195
Inventories.....	—	—	48	—	—	—	—
Prepaid items.....	—	—	60	(1)	—	—	(1,578)
Increases (decreases) in liabilities:							
Accounts payable and accrued liabilities.....	1,679	6,841	742	(308)	—	(430)	1,035
Due to component units.....	—	(113)	—	—	—	—	—
Due to primary government.....	(11)	—	—	1,843	—	382	—
Contracts payable.....	—	—	—	—	—	—	—
Accrued vacation leave.....	56	16	19	—	—	(13)	—
Deferred revenue.....	—	—	(28)	—	—	3	2,319
Total cash provided from (used for) operations.....	<u>15,457</u>	<u>(149,458)</u>	<u>8,138</u>	<u>2,072</u>	<u>(690)</u>	<u>(3,226)</u>	<u>(545)</u>
Cash Provided From (Used For)							
Noncapital Financing Activities:							
Proceeds from sale of bonds/notes.....	191,840	265,925	—	—	—	—	—
Repayment of bond/note principal.....	(147,551)	(101,791)	—	—	—	—	—
Interest payments on bonds and notes.....	(60,892)	—	—	—	—	—	—
Bond issuance cost.....	(3,324)	(1,597)	—	—	—	—	—
Grants.....	—	2,730	—	—	—	—	—
Grants, aid and subsidies.....	—	(2,085)	—	—	—	—	—
Operating transfers from component units.....	—	12,002	—	—	—	—	—
Operating transfers from primary government.....	2,300	14,531	—	—	—	8,446	4,500
Operating transfers to primary government.....	(51)	—	(1)	—	—	—	—
Advance from primary government.....	—	—	—	—	(33,054)	—	—
Long term contract payments.....	—	—	—	—	—	—	—
Increase in contributed capital.....	—	—	—	—	33,599	—	—
Decrease in contributed capital.....	—	—	—	(3,893)	—	—	—
Nonoperating cash donations.....	—	—	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	<u>(17,678)</u>	<u>189,715</u>	<u>(1)</u>	<u>(3,893)</u>	<u>545</u>	<u>8,446</u>	<u>4,500</u>

Exhibit I-3

N.C. Biotechnology Center	Rural Economic Development Center	N.C. Regional Economic Development Commissions	N.C. Agricultural Finance Authority	N.C. Ports Railway Commission	N.C. Partnership for Children, Inc.	N.C. Rural Rehabilitation Corporation	Totals
\$ 4,644	\$ (175)	\$ (2,883)	\$ 156	\$ (198)	\$ (3,915)	\$ 334	\$ 9,254
354	84	181	—	84	1	4	9,272
—	—	—	(297)	—	—	(129)	(34,478)
—	—	—	56	—	—	47	6,069
—	—	—	—	—	—	—	3
159	293	—	277	—	—	445	293,561
—	—	—	2,078	—	—	—	2,078
(725)	(436)	—	(1,585)	—	—	(1,875)	(484,185)
—	58	—	—	—	—	—	6,675
(211)	—	—	20	—	—	—	2,268
(7,454)	—	—	—	43	—	—	(7,685)
—	—	—	—	—	—	—	55,754
—	—	—	—	—	—	—	(690)
—	205	73	64	56	101	—	921
(7)	(511)	49	35	(17)	(4,530)	(36)	(13,676)
—	—	—	—	—	—	—	(1,037)
—	—	—	—	—	—	—	48
—	(3)	(1)	—	(7)	(53)	—	(1,583)
(16)	215	17	(1)	41	399	(165)	10,049
—	—	—	—	—	—	—	(113)
—	(1)	—	—	—	(4,737)	—	(2,524)
(166)	—	—	—	—	—	—	(166)
—	13	(31)	(2)	—	20	—	78
65	—	(6)	—	10	(859)	3	1,507
<u>(3,357)</u>	<u>(258)</u>	<u>(2,601)</u>	<u>801</u>	<u>12</u>	<u>(13,573)</u>	<u>(1,372)</u>	<u>(148,600)</u>
—	—	—	—	—	—	—	457,765
—	—	—	—	—	—	—	(249,342)
—	—	—	—	—	—	—	(60,892)
—	—	—	—	—	—	—	(4,921)
—	736	—	—	—	124	—	3,590
(5,201)	(6,372)	(1,103)	—	—	(79,105)	(25)	(93,891)
—	—	—	—	—	—	—	12,002
10,139	12,632	2,753	134	—	80,817	1,500	137,752
—	—	—	—	—	—	—	(52)
—	—	—	—	—	—	—	(33,054)
219	—	—	—	—	—	—	219
—	—	—	—	—	—	—	33,599
—	—	—	—	—	—	—	(3,893)
—	220	734	—	—	2,253	—	3,207
<u>5,157</u>	<u>7,216</u>	<u>2,384</u>	<u>134</u>	<u>—</u>	<u>4,089</u>	<u>1,475</u>	<u>202,089</u>

Continued

COMPONENT UNITS — PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS (continued)

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	North Carolina Railroad Company	N.C. Low Level Radioactive Waste Management Authority	N.C. Global TransPark Authority	MCNC
Cash Provided From (Used For)							
Capital Financing Activities:							
Acquisition of fixed assets.....	(187)	(525)	(11,411)	(28)	—	(7,628)	(5,116)
Proceeds from the sale of fixed assets.....	17	—	32	—	—	—	—
Proceeds from the sale of notes.....	—	—	—	—	—	—	—
Repayment of bond/note principal.....	—	—	(1,150)	—	—	—	(331)
Principal payment on capital leases.....	—	—	—	—	—	—	(1,088)
Transfer from primary government.....	—	—	—	—	—	—	—
Interest payments on bonds, notes and capital leases..	—	—	(538)	—	—	—	—
Capital grants.....	—	—	14,316	—	—	3,714	—
Dredging costs.....	—	—	(391)	—	—	—	—
Total cash provided from (used for) capital financing activities.....	<u>(170)</u>	<u>(525)</u>	<u>858</u>	<u>(28)</u>	<u>—</u>	<u>(3,914)</u>	<u>(6,535)</u>
Cash Provided From (Used For)							
Investment Activities:							
Proceeds from the sale/maturities of non-State Treasurer investments.....	444,986	178,851	27,865	1,925	—	958	2,580
Purchase of non-State Treasurer investments.....	(452,449)	(215,740)	(34,412)	—	—	—	—
Investment earnings.....	14,812	13,387	897	538	30	—	—
Total cash provided from (used for) investment activities.....	<u>7,349</u>	<u>(23,502)</u>	<u>(5,650)</u>	<u>2,463</u>	<u>30</u>	<u>958</u>	<u>2,580</u>
Net increase (decrease) in cash and cash equivalents.....	4,958	16,230	3,345	614	(115)	2,264	—
Deficit from governmental operations.....	148	—	—	—	—	—	—
Cash and cash equivalents at July 1.....	19,564	157,877	12,410	61	378	1,499	—
Cash and cash equivalents at June 30.....	<u>\$ 24,670</u>	<u>\$ 174,107</u>	<u>\$ 15,755</u>	<u>\$ 675</u>	<u>\$ 263</u>	<u>\$ 3,763</u>	<u>\$ —</u>
Noncash Investing, Capital, and Financing Activities:							
Interest expense on advance from primary government.....	\$ —	\$ —	\$ —	\$ —	\$ 3,088	—	\$ —
Noncash distributions from the State Treasurer Long-Term Investment Pool.....	—	7,720	—	—	—	—	—
Assets acquired through the assumption of a liability....	7,701	5,003	—	—	185	—	—

Exhibit I-3

<u>N.C. Biotechnology Center</u>	<u>Rural Economic Development Center</u>	<u>N.C. Regional Economic Development Commissions</u>	<u>N.C. Agricultural Finance Authority</u>	<u>N.C. Ports Railway Commission</u>	<u>N.C. Partnership for Children, Inc.</u>	<u>N.C. Rural Rehabilitation Corporation</u>	<u>Totals</u>
(91)	(88)	(165)	—	(83)	(10)	—	(25,332)
—	—	—	—	—	—	—	49
—	—	—	—	533	—	—	533
—	(19)	—	—	(74)	—	—	(1,574)
—	—	—	—	(27)	—	—	(1,115)
—	—	—	—	35	—	—	35
—	—	—	—	(7)	—	—	(545)
—	—	—	—	—	—	—	18,030
—	—	—	—	—	—	—	(391)
<u>(91)</u>	<u>(107)</u>	<u>(165)</u>	<u>—</u>	<u>377</u>	<u>(10)</u>	<u>—</u>	<u>(10,310)</u>
89,604	—	1,683	—	—	—	—	748,452
(92,581)	(1,312)	(1,000)	—	—	—	—	(797,494)
<u>1,393</u>	<u>243</u>	<u>162</u>	<u>234</u>	<u>40</u>	<u>129</u>	<u>88</u>	<u>31,953</u>
<u>(1,584)</u>	<u>(1,069)</u>	<u>845</u>	<u>234</u>	<u>40</u>	<u>129</u>	<u>88</u>	<u>(17,089)</u>
125	5,782	463	1,169	429	(9,365)	191	26,090
—	—	—	—	—	—	—	148
<u>750</u>	<u>412</u>	<u>653</u>	<u>1,741</u>	<u>613</u>	<u>11,785</u>	<u>2,220</u>	<u>209,963</u>
<u>\$ 875</u>	<u>\$ 6,194</u>	<u>\$ 1,116</u>	<u>\$ 2,910</u>	<u>\$ 1,042</u>	<u>\$ 2,420</u>	<u>\$ 2,411</u>	<u>\$ 236,201</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,088
—	—	—	—	—	—	—	7,720
—	—	—	1,664	576	—	483	15,612

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

June 30, 1999

Exhibit I-4

(Dollars in Thousands)

	<u>University Funds</u>	<u>Community Colleges Funds</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents.....	\$ 1,454,690	\$ 90,155	\$ 1,544,845
Investments.....	2,561,198	55,194	2,616,392
Receivables:			
Accounts receivable.....	221,915	10,087	232,002
Intergovernmental receivables.....	49,271	56,127	105,398
Interest receivable.....	9,769	279	10,048
Due from other funds.....	60,901	528	61,429
Due from component units.....	1,022	—	1,022
Due from primary government.....	13,819	28,898	42,717
Notes receivable.....	95,577	500	96,077
Inventories.....	42,566	11,968	54,534
Prepaid items.....	8,481	556	9,037
Fixed assets.....	<u>5,020,923</u>	<u>1,226,763</u>	<u>6,247,686</u>
Total Assets.....	<u>\$ 9,540,132</u>	<u>\$ 1,481,055</u>	<u>\$11,021,187</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities:			
Accounts payable.....	\$ 92,158	\$ 15,072	\$ 107,230
Accrued payroll.....	61,335	5,790	67,125
Intergovernmental payables.....	17,365	154	17,519
Arbitrage rebate payable.....	3,070	—	3,070
Obligations under securities lending.....	553,403	34,208	587,611
Due to other funds.....	60,901	528	61,429
Due to component units.....	1,022	—	1,022
Due to primary government.....	1,422	3,125	4,547
Obligations under reverse repurchase agreements.....	86,891	—	86,891
Notes payable.....	18,892	1,271	20,163
Claims and benefits payable.....	37,426	—	37,426
Capital leases payable.....	647	350	997
Bonds payable.....	897,654	—	897,654
Interest payable.....	11,874	8	11,882
Deposits payable.....	383,269	5,185	388,454
Accrued vacation leave.....	112,024	24,556	136,580
Deferred revenue.....	<u>32,500</u>	<u>26</u>	<u>32,526</u>
Total Liabilities.....	<u>2,371,853</u>	<u>90,273</u>	<u>2,462,126</u>
Fund Equity:			
Investment in fixed assets.....	4,120,252	1,225,174	5,345,426
Fund balances:			
Restricted for:			
Loans.....	98,266	992	99,258
Endowments.....	837,429	16,644	854,073
Revenue bonds.....	71,749	—	71,749
Restricted funds.....	<u>648,444</u>	<u>104,250</u>	<u>752,694</u>
Total restricted fund balances.....	<u>1,655,888</u>	<u>121,886</u>	<u>1,777,774</u>
Unrestricted:			
Quasi-endowment.....	151,930	2,044	153,974
Undesignated.....	<u>1,240,209</u>	<u>41,678</u>	<u>1,281,887</u>
Total Fund Equity.....	<u>7,168,279</u>	<u>1,390,782</u>	<u>8,559,061</u>
Total Liabilities and Fund Equity.....	<u>\$ 9,540,132</u>	<u>\$ 1,481,055</u>	<u>\$11,021,187</u>

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

For the fiscal year ended June 30, 1999

Exhibit I-5

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
Revenues and Other Additions:			
Tuition and fees.....	\$ 406,052	\$ 14,427	\$ 420,479
Federal appropriations.....	23,397	—	23,397
County appropriations.....	—	118,719	118,719
Federal contracts and grants.....	569,104	92,062	661,166
State contracts and grants.....	89,834	7,528	97,362
Local contracts and grants.....	4,794	19,637	24,431
Private gifts, contracts and grants.....	287,776	19,702	307,478
Endowment income.....	23,766	643	24,409
Sales and services.....	823,380	51,044	874,424
Investment earnings.....	129,257	6,507	135,764
Expended for plant facilities.....	327,025	127,216	454,241
Retirement of indebtedness.....	33,652	244	33,896
Proceeds of refunding debt.....	9,032	—	9,032
Income from hospital operations.....	436,671	—	436,671
Other revenues and additions.....	55,460	3,736	59,196
Total revenues and other additions.....	<u>3,219,200</u>	<u>461,465</u>	<u>3,680,665</u>
Expenditures and Other Deductions:			
Educational and general.....	2,833,815	829,030	3,662,845
Auxiliary enterprises.....	459,376	46,960	506,336
Internal service.....	31,676	2,276	33,952
Independent operations.....	13,047	—	13,047
Professional clinical services.....	207,222	—	207,222
Indirect cost recovered.....	93,503	756	94,259
Refunded to grantors.....	1,354	35	1,389
Administrative and collection costs, loan cancellation and bad debts.....	2,998	—	2,998
Expended for plant facilities.....	234,325	129,798	364,123
Retirement of indebtedness.....	33,645	171	33,816
Payment to escrow agent.....	8,776	—	8,776
Interest on indebtedness.....	37,644	49	37,693
Disposal of plant facilities.....	50,585	36,468	87,053
Loss on refunding of debt.....	543	—	543
Hospital operations.....	436,549	—	436,549
Other expenditures and deductions.....	5,031	1,852	6,883
Total expenditures and other deductions.....	<u>4,450,089</u>	<u>1,047,395</u>	<u>5,497,484</u>
Transfers - Additions (Deductions):			
Operating transfers from primary government.....	1,799,860	652,597	2,452,457
Operating transfers to primary government.....	(20,332)	—	(20,332)
Operating transfers to component units.....	(12,002)	—	(12,002)
Net transfers.....	<u>1,767,526</u>	<u>652,597</u>	<u>2,420,123</u>
Net increase in fund equity.....	536,637	66,667	603,304
Fund equity — July 1.....	6,523,755	1,322,792	7,846,547
Restatements.....	107,978	1,323	109,301
Residual equity transfers out.....	(91)	—	(91)
Fund equity — June 30.....	<u>\$ 7,168,279</u>	<u>\$ 1,390,782</u>	<u>\$ 8,559,061</u>

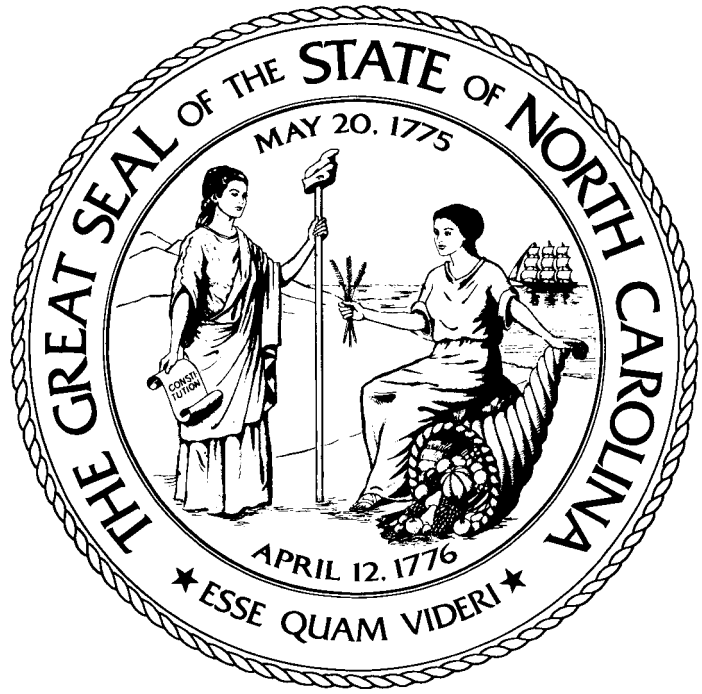
COMPONENT UNITS — COLLEGE AND UNIVERSITY FUNDS
COMBINING STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND TRANSFERS

For the Fiscal Year Ended June 30, 1999

Exhibit I-6

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
Revenues:			
Tuition and fees.....	\$ 404,743	\$ 14,399	\$ 419,142
Federal appropriations.....	23,397	—	23,397
County appropriations.....	—	100,410	100,410
Federal contracts and grants.....	482,899	91,510	574,409
State contracts and grants.....	88,286	—	88,286
Local contracts and grants.....	95,899	1,418	97,317
Private gifts, contracts and grants.....	143,537	10,451	153,988
Endowment income.....	15,998	375	16,373
Sales and services.....	823,356	51,040	874,396
Investment earnings.....	56,752	4,306	61,058
Other revenues.....	36,751	3,121	39,872
Total current revenues.....	<u>2,171,618</u>	<u>277,030</u>	<u>2,448,648</u>
Expenditures:			
Educational and general:			
Instruction.....	1,148,041	467,135	1,615,176
Organized research.....	393,077	93	393,170
Public service.....	256,657	4,574	261,231
Academic support.....	248,181	21,734	269,915
Student services.....	75,977	58,693	134,670
Institutional support.....	272,303	121,591	393,894
Physical plant operations.....	204,979	76,024	281,003
Student financial aid.....	234,600	79,186	313,786
Total educational and general.....	<u>2,833,815</u>	<u>829,030</u>	<u>3,662,845</u>
Auxiliary enterprises.....	459,376	46,960	506,336
Internal service.....	31,676	2,276	33,952
Independent operations.....	13,047	—	13,047
Professional clinical services.....	207,222	—	207,222
Total expenditures.....	<u>3,545,136</u>	<u>878,266</u>	<u>4,423,402</u>
Transfers and Additions (Deductions):			
Excess of restricted receipts over (under)			
revenues earned.....	10,526	1,445	11,971
Refunded to grantors.....	(1,354)	—	(1,354)
Mandatory transfers.....	(61,874)	(3)	(61,877)
Non-mandatory transfers.....	(39,132)	(2,568)	(41,700)
Interinstitutional transfers.....	(2,338)	—	(2,338)
Operating transfers from primary government.....	1,580,716	605,305	2,186,021
Operating transfers to primary government.....	(1,549)	—	(1,549)
Operating transfers to component units.....	(12,002)	—	(12,002)
Net increase in fund equity.....	<u>\$ 99,475</u>	<u>\$ 2,943</u>	<u>\$ 102,418</u>



STATISTICAL SECTION

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

(Dollars in Thousands)

		<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Revenues — By Source						
Taxes..... [2]	\$	13,817,577	\$ 13,287,609	\$ 12,177,605	\$ 11,390,198	\$ 10,773,352
Federal funds.....		6,297,196	5,983,003	5,857,680	5,192,921	4,458,959
Local funds.....		469,539	462,879	427,306	469,023	325,613
Investment earnings..... [1] [4]		529,028	575,901	454,678	290,536	245,388
Interest earnings on loans.....		6,665	5,676	4,280	1,361	121
Sales and services.....		92,237	84,087	76,130	82,511	46,686
Sale, rental and lease of property.....		26,913	26,321	24,738	23,641	13,888
Fees, licenses and fines.....		895,892	826,491	814,690	793,622	749,277
Contributions, gifts and grants.....		71,787	61,189	31,805	21,512	38,012
Miscellaneous.....		172,103	148,794	182,247	141,647	169,276
Total revenues.....	\$	<u>22,378,937</u>	<u>\$ 21,461,950</u>	<u>\$ 20,051,159</u>	<u>\$ 18,406,972</u>	<u>\$ 16,820,572</u>

Expenditures — By Function						
Current:						
General government..... [1]	\$	1,039,855	\$ 1,115,763	\$ 921,406	\$ 769,518	\$ 787,164
Education..... [1]		6,253,838	5,416,486	4,775,741	4,499,257	4,441,966
Health and human services..... [1] [3]		7,665,461	7,300,262	6,822,624	6,244,976	5,211,388
Economic development..... [1]		370,124	321,613	294,787	261,340	273,101
Environment and natural resources..... [1] [3]		354,025	332,803	668,402	576,272	591,007
Public safety, corrections, and regulation..... [1]		1,670,703	1,578,985	1,613,757	1,331,964	1,209,576
Transportation..... [1]		2,508,886	2,384,455	2,205,494	1,908,076	1,871,233
Agriculture..... [1]		72,562	68,573	65,421	63,174	62,257
Retiree tax judgements.....		399,000	400,000	—	—	—
Capital outlay.....		182,793	203,605	147,194	173,118	167,249
Debt service.....		227,630	170,039	131,249	150,471	141,031
Total expenditures.....	\$	<u>20,744,877</u>	<u>\$ 19,292,584</u>	<u>\$ 17,646,075</u>	<u>\$ 15,978,166</u>	<u>\$ 14,755,972</u>

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

**Major Revenues by Source
1990 - 1999**

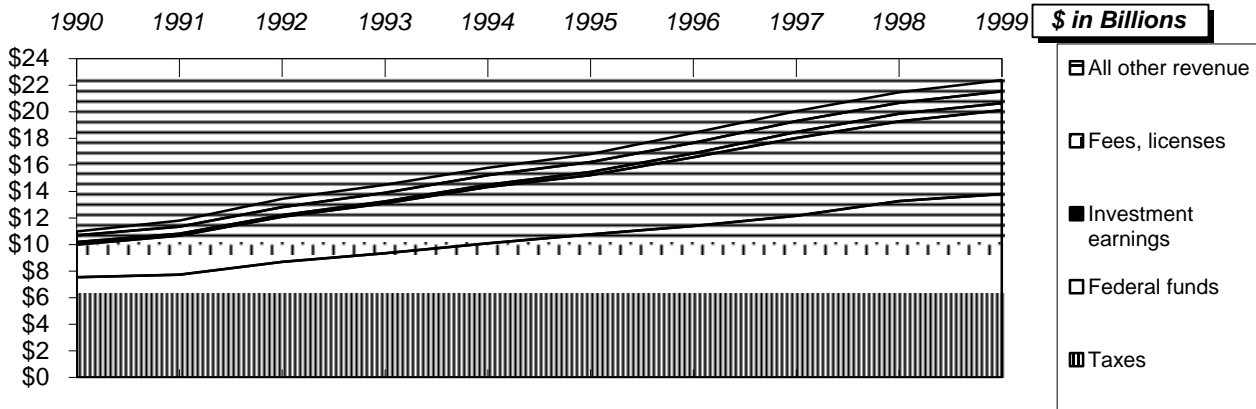


Table 1

1994	1993	1992	1991	1990
\$ 10,084,671	\$ 9,347,575	\$ 8,703,484	\$ 7,730,054	\$ 7,543,587
4,243,091	3,757,961	3,382,683	2,940,213	2,463,686
299,297	269,545	234,428	203,171	167,093
183,574	145,771	120,891	144,823	179,575
38	—	—	—	—
74,210	32,195	33,263	54,197	63,785
9,396	7,467	6,787	6,817	5,473
713,941	662,007	621,241	529,746	518,000
28,135	155,488	266,435	143,434	10,421
141,421	118,755	69,389	52,808	44,033
<u>\$ 15,777,774</u>	<u>\$ 14,496,764</u>	<u>\$ 13,438,601</u>	<u>\$ 11,805,263</u>	<u>\$ 10,995,653</u>
\$ 735,973	\$ 825,507	\$ 786,729	\$ 755,810	\$ 472,543
4,144,633	4,429,381	4,188,854	4,135,288	3,920,038
4,519,194	4,090,775	3,824,635	3,311,811	2,631,963
261,623	261,142	242,870	244,198	242,541
538,574	458,041	391,342	355,282	333,151
1,099,081	973,708	903,543	868,227	834,110
1,724,551	1,569,932	1,449,123	1,401,607	1,290,250
59,552	59,997	57,316	56,472	55,272
—	—	—	—	—
127,275	77,528	119,343	131,565	108,867
123,376	124,314	114,928	106,692	110,396
<u>\$ 13,333,832</u>	<u>\$ 12,870,325</u>	<u>\$ 12,078,683</u>	<u>\$ 11,366,952</u>	<u>\$ 9,999,131</u>

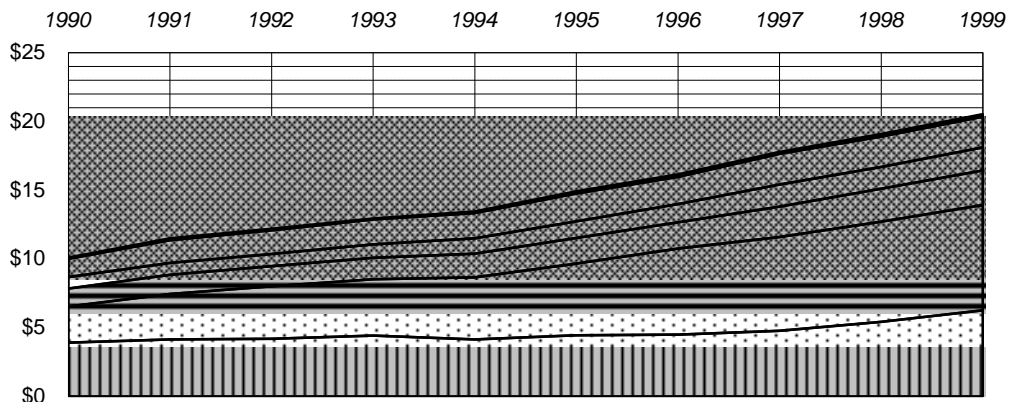
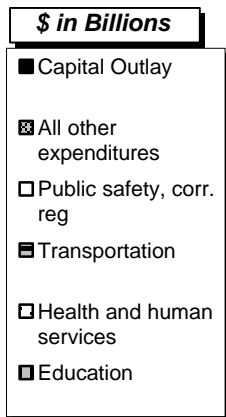
[1] Fiscal years prior to 1997 do not reflect the implementation of GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*. The impact of GASB Statement 28 is to gross-up investment earnings by the amount of fees charged for securities lending and to increase current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

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

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

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

Major Expenditures by Function 1990 - 1999



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

(Dollars in Thousands)

	1999	1998	1997	1996
TAX REVENUES				
Individual income tax..... [2]	\$ 6,586,153	\$ 6,124,709	\$ 5,454,571	\$ 4,975,387
Corporate income tax..... [2]	920,583	999,759	869,717	878,028
Individual and corporate income taxes.....	<u>7,506,736</u>	<u>7,124,468</u>	<u>6,324,288</u>	<u>5,853,415</u>
Sales and use tax..... [2]	3,342,157	3,272,774	3,134,877	2,947,537
Franchise tax.....	567,497	567,869	534,622	495,008
Beverage tax.....	182,970	155,352	151,064	138,653
Insurance tax.....	291,202	283,828	259,286	242,188
Intangible tax.....	31	217	—	11,509
Inheritance tax.....	163,608	144,203	132,195	113,416
Soft drink tax.....	11,463	22,338	30,980	39,619
Tobacco products tax.....	44,694	47,304	46,797	46,394
License tax.....	27,202	38,209	41,280	44,962
Real estate conveyance tax.....	1,215	894	1,064	19,510
Gift tax.....	19,243	20,722	12,566	11,043
Other taxes.....	10,973	1,501	1,516	1,388
Total tax revenues.....	<u>12,168,991</u>	<u>11,679,679</u>	<u>10,670,535</u>	<u>9,964,642</u>
NON-TAX REVENUES				
Federal Funds:				
Departmental revenues.....	<u>5,361,839</u>	<u>5,174,406</u>	<u>5,169,286</u>	<u>4,613,915</u>
Local Funds:				
Departmental revenues.....	<u>436,609</u>	<u>436,347</u>	<u>403,145</u>	<u>445,443</u>
Investment Earnings:				
Income from General Fund investments..... [3]	248,657	252,162	224,260	202,277
Railroad dividends.....	—	—	—	—
Departmental revenues..... [1]	116,947	195,370	115,979	11,070
Other investment earnings.....	81	137	241	249
	<u>365,685</u>	<u>447,669</u>	<u>340,480</u>	<u>213,596</u>
Sales and Services:				
Departmental revenues.....	70,036	67,214	58,744	63,345
Other non-tax revenues.....	350	319	—	—
	<u>70,386</u>	<u>67,533</u>	<u>58,744</u>	<u>63,345</u>
Sale, Rental and Lease of Property:				
Proceeds from sale, rental and lease of property.....	786	1,811	1,342	1,265
Departmental revenues.....	5,773	4,255	4,651	4,404
	<u>6,559</u>	<u>6,066</u>	<u>5,993</u>	<u>5,669</u>
Fees, Licenses and Fines:				
Court fines and fees.....	99,986	93,252	99,819	90,456
Secretary of State service fees.....	20,099	19,257	17,344	14,838
Banking and investment fees.....	4,332	3,031	3,337	3,432
Self insurer fees (Industrial Commission).....	4,128	3,556	3,460	3,038
Gasoline and oil inspection fees.....	—	—	—	—
Environment and Natural Resources - use fees.....	—	—	—	—
Probation supervision fees.....	11,166	11,778	10,859	10,002
Elections filing fees.....	23	276	19	287
Department of Insurance fees.....	18,205	1,096	6,001	961
DWI service and restoration fees.....	5,936	6,050	5,949	5,426
Departmental revenues.....	110,664	103,296	104,002	101,364
Other non-tax revenues.....	2,629	3,082	4,056	5,005
	<u>277,168</u>	<u>244,674</u>	<u>254,846</u>	<u>234,809</u>
Contributions, Gifts and Grants:				
Departmental revenues.....	17,511	13,205	14,145	8,574
Other non-tax revenues.....	101	1	—	—
	<u>17,612</u>	<u>13,206</u>	<u>14,145</u>	<u>8,574</u>
Miscellaneous:				
Local sales and use tax administration.....	10,293	10,060	9,178	8,661
Sales tax refunds.....	10,406	10,936	13,301	11,585
Departmental revenues.....	130,518	115,529	151,906	112,430
Other non-tax revenue.....	844	744	455	471
	<u>152,061</u>	<u>137,269</u>	<u>174,840</u>	<u>133,147</u>
Total non-tax revenues.....	<u>6,687,919</u>	<u>6,527,170</u>	<u>6,421,479</u>	<u>5,718,498</u>
Total Revenues.....	<u>\$ 18,856,910</u>	<u>\$ 18,206,849</u>	<u>\$ 17,092,014</u>	<u>\$ 15,683,140</u>

Table 2

1995	1994	1993	1992	1991	1990
\$ 4,617,197	\$ 4,289,162	\$ 3,992,538	\$ 3,650,313	\$ 3,508,173	N/A
833,135	737,125	710,665	643,901	493,448	N/A
<u>5,450,332</u>	<u>5,026,287</u>	<u>4,703,203</u>	<u>4,294,214</u>	<u>4,001,621</u>	\$ 3,957,643
2,701,114	2,585,642	2,363,745	2,215,318	1,680,758	1,767,692
457,952	438,779	423,623	407,362	374,017	262,822
170,033	161,578	159,049	159,116	152,938	145,761
235,455	219,847	211,110	191,531	193,241	176,715
128,608	127,088	120,599	112,168	92,500	97,258
109,883	106,530	89,626	87,674	76,781	72,875
36,176	38,124	35,087	32,289	30,099	28,987
44,936	39,700	43,373	41,392	15,238	15,315
53,431	50,975	27,641	29,932	31,131	28,225
16,349	18,046	15,742	10,952	8,247	9,307
8,592	13,150	13,555	7,248	7,675	10,122
1,421	955	856	1,288	1,141	765
<u>9,414,282</u>	<u>8,826,701</u>	<u>8,207,209</u>	<u>7,590,484</u>	<u>6,665,387</u>	<u>6,573,487</u>
<u>3,780,032</u>	<u>3,595,033</u>	<u>3,206,169</u>	<u>2,902,873</u>	<u>2,511,804</u>	<u>2,022,667</u>
<u>299,156</u>	<u>270,873</u>	<u>237,329</u>	<u>204,414</u>	<u>179,887</u>	<u>143,991</u>
163,783	121,776	77,911	56,900	75,171	116,304
96	96	96	96	128	96
7,923	7,214	11,080	9,676	6,008	6,739
221	70	61	94	221	—
<u>172,023</u>	<u>129,156</u>	<u>89,148</u>	<u>66,766</u>	<u>81,528</u>	<u>123,139</u>
24,414	44,503	2,276	48,771	48,361	59,675
—	—	—	—	—	—
<u>24,414</u>	<u>44,503</u>	<u>2,276</u>	<u>48,771</u>	<u>48,361</u>	<u>59,675</u>
499	7	190	38	214	100
7,288	6,880	6,671	6,209	6,019	5,154
<u>7,787</u>	<u>6,887</u>	<u>6,861</u>	<u>6,247</u>	<u>6,233</u>	<u>5,254</u>
88,023	81,529	76,601	71,430	63,149	59,689
12,911	11,209	9,720	8,338	7,293	7,236
3,760	3,513	3,234	2,960	2,821	2,389
2,768	2,785	2,894	2,398	2,538	2,547
—	1,251	1,176	1,357	1,427	1,021
—	—	—	1,521	656	—
9,690	8,604	8,770	8,412	7,524	6,331
17	252	13	218	14	221
936	14,834	11,173	6,987	5,336	3,502
5,342	4,818	4,597	4,582	4,588	3,668
106,360	99,502	109,902	98,896	72,572	66,043
5,415	7,265	4,002	2,297	1,592	1,223
<u>235,222</u>	<u>235,562</u>	<u>232,082</u>	<u>209,396</u>	<u>169,510</u>	<u>153,870</u>
4,065	3,319	129,430	238,350	50,550	1,479
—	—	—	—	—	—
<u>4,065</u>	<u>3,319</u>	<u>129,430</u>	<u>238,350</u>	<u>50,550</u>	<u>1,479</u>
6,669	5,623	5,920	6,243	5,819	5,425
14,217	12,166	10,811	11,193	—	—
129,224	104,072	75,074	22,359	24,241	18,445
1,534	598	1,313	2,445	387	741
<u>151,644</u>	<u>122,459</u>	<u>93,118</u>	<u>42,240</u>	<u>30,447</u>	<u>24,611</u>
<u>4,674,343</u>	<u>4,407,792</u>	<u>3,996,413</u>	<u>3,719,057</u>	<u>3,078,320</u>	<u>2,534,686</u>
<u>\$ 14,088,625</u>	<u>\$ 13,234,493</u>	<u>\$ 12,203,622</u>	<u>\$ 11,309,541</u>	<u>\$ 9,743,707</u>	<u>\$ 9,108,173</u>

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

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

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

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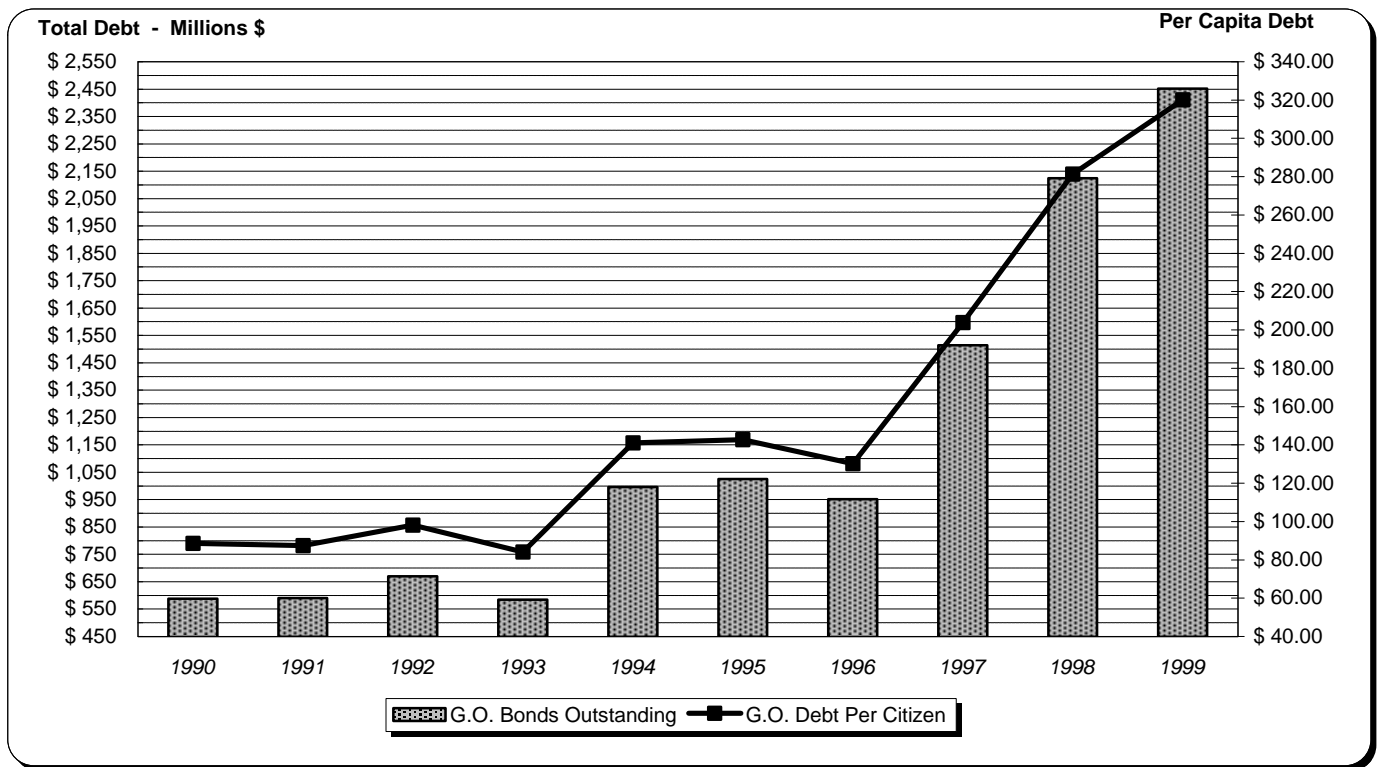
GENERAL OBLIGATION BONDS DEBT RATIOS

For the Fiscal Years 1990-1999

Table 3

Fiscal Year Ended June 30	General Obligation Debt Per Capita			Ratio of Annual Debt Service To General Expenditures		
	N.C. Population	General Obligation Bonds Outstanding	G.O. Debt per Citizen	Debt Service (Principal and Interest)	Total General Expenditures	Ratio
1999	7,658,145	\$ 2,451,973,000	\$ 320.18	\$ 227,630,000	\$ 20,744,877,000	1.10%
1998	7,547,090	\$ 2,123,944,000	\$ 281.43	\$ 170,039,000	\$ 19,292,584,000	0.88%
1997	7,430,250	\$ 1,514,477,000	\$ 203.83	\$ 131,249,000	\$ 17,646,075,000	0.74%
1996	7,307,943	\$ 951,082,000	\$ 130.14	\$ 150,741,000	\$ 15,978,166,000	0.94%
1995	7,186,050	\$ 1,025,167,000	\$ 142.66	\$ 141,031,000	\$ 14,755,972,000	0.96%
1994	7,061,352	\$ 996,365,000	\$ 141.10	\$ 123,376,000	\$ 13,333,832,000	0.93%
1993	6,948,745	\$ 584,905,000	\$ 84.17	\$ 124,314,000	\$ 12,870,325,000	0.97%
1992	6,832,503	\$ 670,380,000	\$ 98.12	\$ 114,928,000	\$ 12,078,683,000	0.95%
1991	6,747,433	\$ 590,014,000	\$ 87.44	\$ 106,692,000	\$ 11,366,952,000	0.94%
1990	6,632,448	\$ 588,004,000	\$ 88.66	\$ 110,396,000	\$ 9,999,131,000	1.10%

Total General Obligation Debt and Long-Term Debt Per Capita



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

REVENUE BOND COVERAGE

For the Fiscal Years 1990-1999

(Dollars in Thousands)

<u>Fiscal Year Ended June 30</u>	<u>Gross Revenues</u> [1]	<u>Direct Operating Expenses</u> [1]	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u> [2]
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
<u>PRIMARY GOVERNMENT:</u>							
<u>General Long-Term Obligations Account Group</u>							
1999	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—
1994 [3]	—	—	—	—	—	—	—
1993	371	—	371	750	72	822	.45
1992	380	—	380	750	143	893	.43
1991	365	—	365	650	203	853	.43
1990	755	—	755	650	261	911	.83
<u>Enterprise Funds</u>							
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996 [4]	—	—	—	—	—	—	—
1995	1,963	1,981	(18)	111	—	111	(.16)
1994	1,947	1,845	102	104	14	118	.86
1993	1,856	1,759	97	96	21	117	.83
1992	1,923	1,799	124	88	34	122	1.02
1991	1,884	1,611	273	81	44	125	2.18
1990	1,718	1,637	81	69	52	121	.67

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

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

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

[4] - These bonds were paid in full in 1996.

Table 4

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

COMPONENT UNITS:**Proprietary Funds**

1999	\$ 172,096	\$ 14,298	\$157,798	\$ 13,435	\$ 87,468	\$ 100,903	1.56
1998	186,851	12,414	174,437	11,910	73,743	85,653	2.04
1997	105,826	10,624	95,202	10,696	69,182	79,878	1.19
1996	79,683	3,293	76,390	20,520	52,347	72,867	1.05
1995	78,248	3,972	74,276	12,487	53,662	66,149	1.12
1994	94,369	4,355	90,014	17,692	61,772	79,464	1.13
1993	103,150	7,979	95,171	19,967	66,133	86,100	1.11
1992	110,774	8,416	102,358	18,010	68,499	86,509	1.18
1991	115,880	6,542	109,338	18,481	70,796	89,277	1.22
1990	103,093	8,692	94,401	19,078	70,502	89,580	1.05

University Funds

1999	954,859	787,073	167,786	28,303	42,746	71,049	2.36
1998	925,006	682,629	242,377	25,468	40,689	66,157	3.66
1997	832,060	646,514	185,546	23,521	40,515	64,036	2.90
1996	810,405	614,180	196,225	21,148	33,071	54,219	3.62
1995	771,291	583,295	187,996	17,414	34,453	51,867	3.62
1994	690,984	555,903	135,081	14,029	28,075	42,104	3.21
1993	625,097	514,644	110,453	13,314	29,503	42,817	2.58
1992	263,866	210,126	53,740	8,361	22,205	30,566	1.76
1991	244,610	201,762	42,848	6,905	19,797	26,702	1.60
1990	226,101	183,334	42,767	6,076	18,972	25,048	1.71

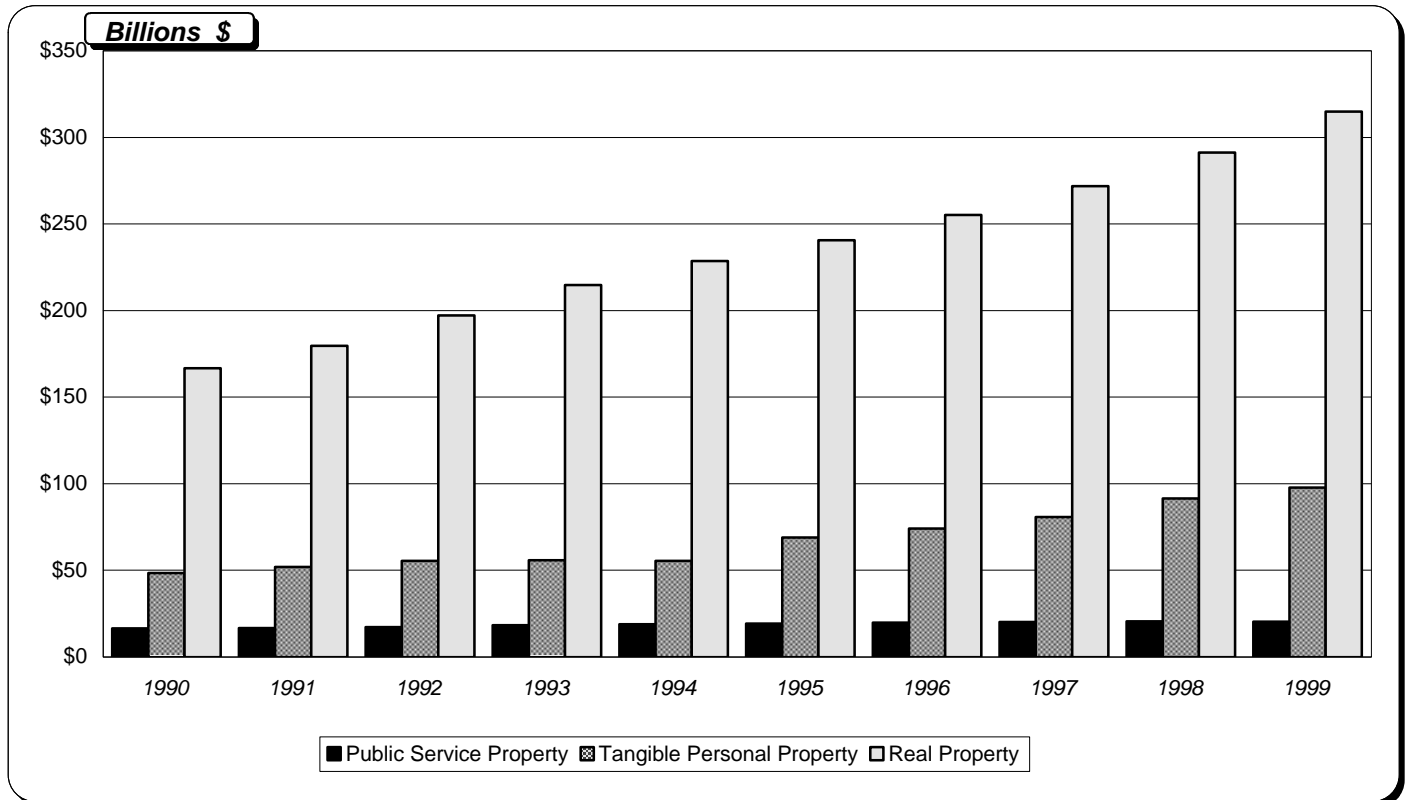
**STATEWIDE ASSESSED PROPERTY VALUES
REAL PROPERTY, TANGIBLE PERSONAL PROPERTY AND
PUBLIC SERVICE COMPANIES**

For the Fiscal Years 1990-1999

Table 5

Assessed Value at January 1				
For the Years	Real Property	Personal Property	Public Service Companies	Total
1999	\$ 314,949,315,291	\$ 97,834,758,018	\$ 20,244,024,631	\$ 433,028,097,940
1998	291,205,137,584	91,392,925,590	20,442,713,966	403,040,777,140
1997	271,764,063,900	80,698,570,134	20,194,521,863	372,657,155,897
1996	255,260,809,402	74,021,864,531	19,847,155,764	349,129,829,697
1995	240,636,714,460	68,881,737,558	19,193,111,331	328,711,563,349
1994	228,535,500,422	55,446,883,320	18,847,015,529	302,829,399,271
1993	214,688,830,054	55,808,723,703	18,210,749,564	288,708,303,321
1992	197,102,056,813	55,347,001,285	17,272,796,848	269,721,854,946
1991	179,691,593,712	51,895,857,703	16,651,387,521	248,238,838,936
1990	166,750,735,800	48,368,087,887	16,472,361,742	231,591,185,429

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



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

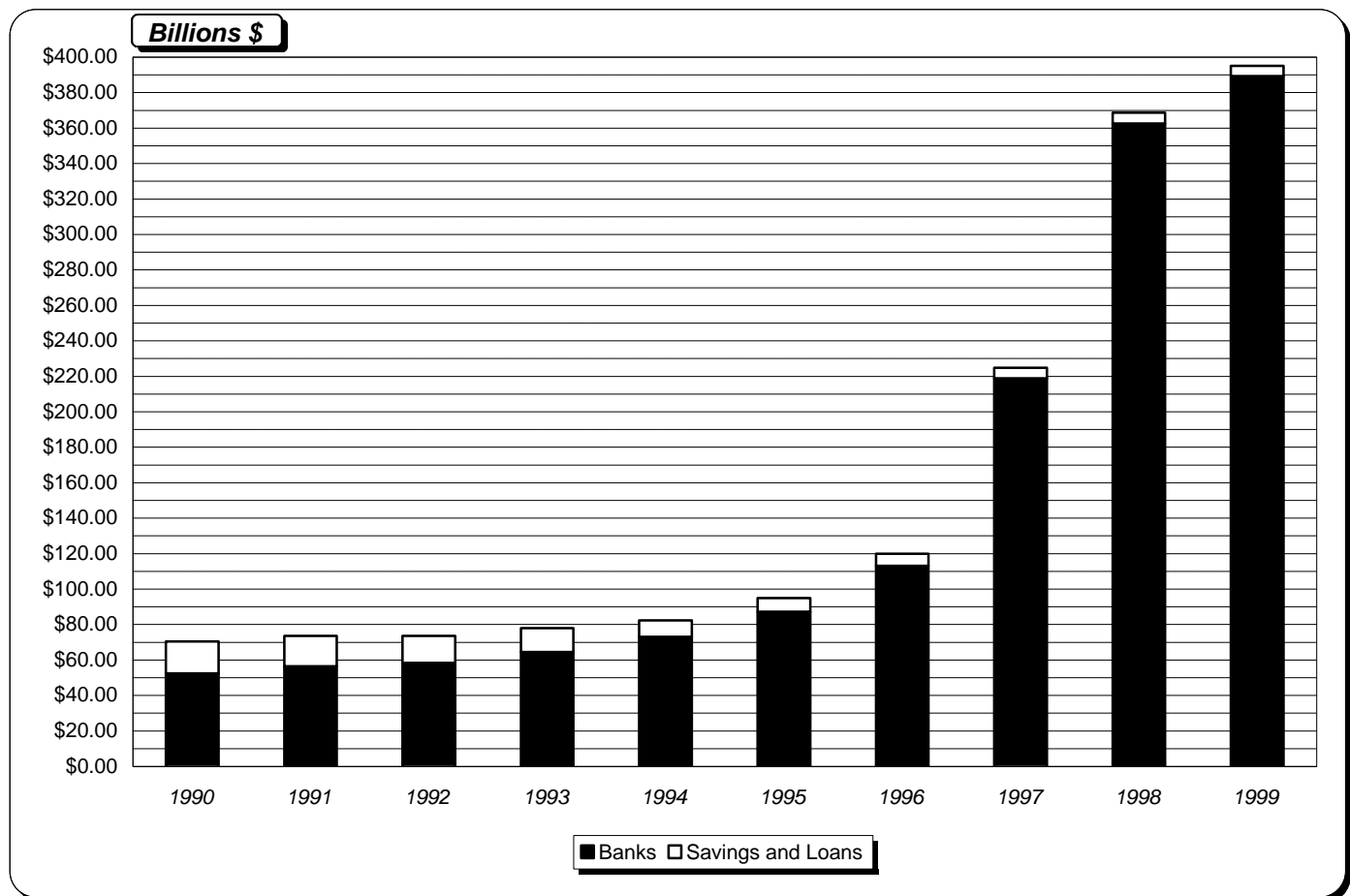
**SCHEDULE OF BANK AND SAVINGS AND LOAN DEPOSITS
OF FINANCIAL INSTITUTIONS LOCATED IN NORTH CAROLINA**

For the Years 1990-1999
(Dollars in Thousands)

Table 6

Banks				Savings and Loan Associations			
As of June 30	Chartered		Total Deposits	As of Dec. 31	Chartered		Total Deposits
	State	National			State	Federal	
1999	\$ 47,171,364	\$342,200,834	[1] \$ 389,372,198	1998	\$ 3,283,086	\$ 2,408,829	\$ 5,691,915
1998	42,834,645	319,721,396	[1] 362,556,041	1997	3,440,310	2,663,747	6,104,057
1997	40,258,721	178,556,322	[1] 218,815,043	1996	3,459,159	2,636,338	6,095,497
1996	37,637,624	75,499,983	113,137,607	1995	3,949,870	2,898,852	6,848,722
1995	34,336,993	52,883,449	87,220,442	1994	4,910,234	2,827,642	7,737,876
1994	26,087,820	47,009,485	73,097,305	1993	5,633,380	3,584,274	9,217,654
1993	23,310,981	41,231,385	64,542,366	1992	5,670,725	7,788,016	13,458,741
1992	21,213,128	37,261,674	58,474,802	1991	4,878,921	10,253,169	15,132,090
1991	19,561,303	36,969,025	56,530,328	1990	5,327,335	11,822,779	17,150,114
1990	16,496,940	36,025,376	52,522,316	1989	5,884,060	12,042,337	17,926,397

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



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

Source: North Carolina Department of Commerce

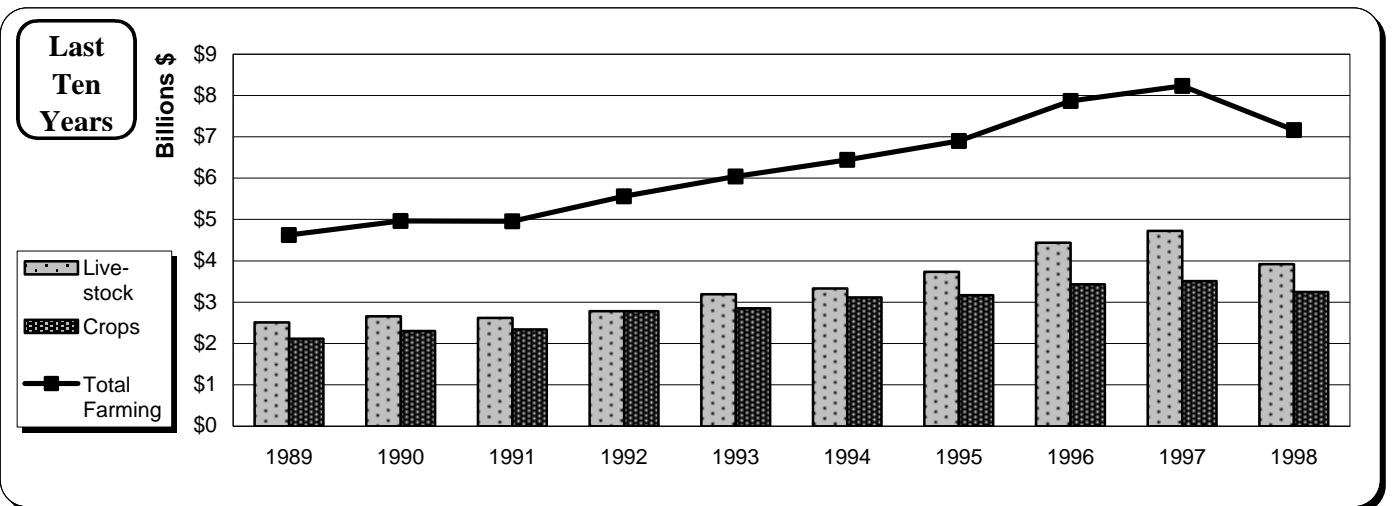
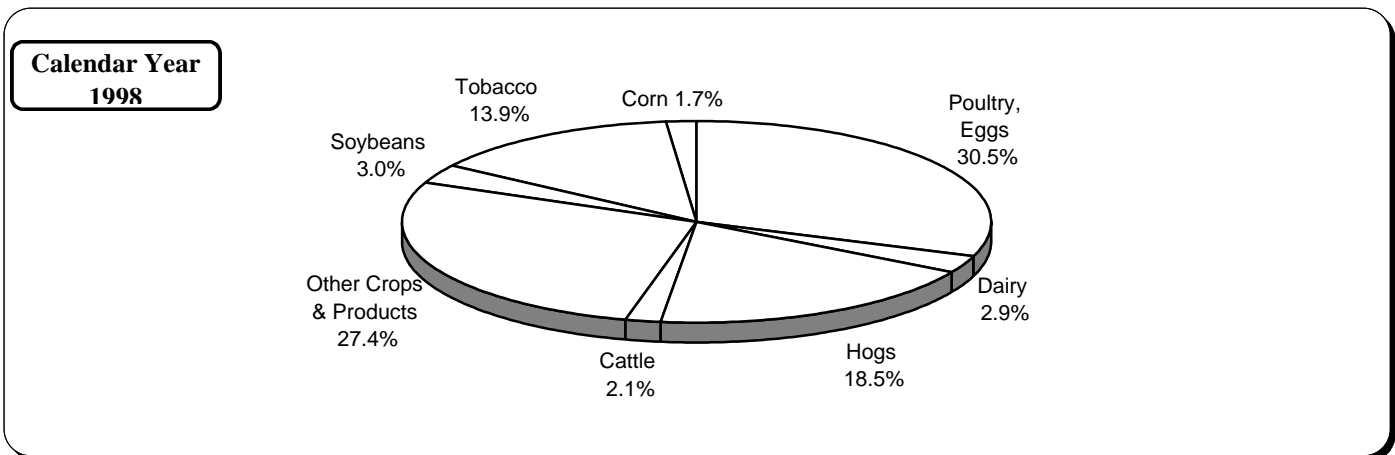
CASH RECEIPTS FROM FARMING BY COMMODITIES

For the Calendar Years 1989-1998
(Dollars in Millions)

Table 7

Year	Livestock and Related Products						Crops					Total All Livestock and Crops
	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	
1998	\$2,182.4	\$209.2	\$1,323.0	\$154.0	\$48.5	\$3,917.1	\$997.6	\$212.6	\$120.3	\$1,916.3	\$3,246.8	\$7,163.9
1997	2,210.0	193.6	2,058.8	213.1	47.5	4,723.0	1,193.2	269.8	193.1	1,850.9	3,507.0	8,230.0
1996	2,250.6	214.3	1,766.5	153.2	56.9	4,441.5	1,021.5	229.3	298.0	1,879.0	3,427.8	7,869.3
1995	2,053.9	189.9	1,279.3	146.9	61.0	3,731.0	1,048.5	157.4	165.7	1,795.4	3,167.0	6,898.0
1994	1,911.5	210.5	982.8	166.7	57.5	3,329.0	942.9	217.3	149.0	1,804.6	3,113.8	6,442.8
1993	1,822.1	211.2	930.0	172.0	54.6	3,189.9	1,029.9	195.5	139.2	1,486.6	2,851.2	6,041.1
1992	1,612.3	218.8	730.8	168.6	53.7	2,784.2	1,049.5	203.5	178.0	1,346.3	2,777.3	5,561.5
1991	1,516.9	204.2	665.3	177.7	53.1	2,617.2	1,054.7	193.4	166.3	924.2	2,338.6	4,955.8
1990	1,577.3	234.8	615.1	178.7	52.9	2,658.8	1,051.6	205.0	193.2	853.9	2,303.7	4,962.5
1989	1,574.5	223.8	508.8	148.4	54.7	2,510.2	946.1	231.2	189.2	744.6	2,111.1	4,621.3

CASH RECEIPTS FROM FARMING



Source: North Carolina Crop and Livestock Reporting Service (Data for 1999 is not available.)

MAJOR PRIVATE EMPLOYERS IN NORTH CAROLINA*Table 8*

The State's largest major private employers, ranked in order according to first quarter 1998 preliminary employment averages, are listed:

1999 Rank	Employer	Type of Business
1	Wal-Mart Stores, Inc.	Discount store chain
2	Food Lion, Inc.	Supermarket chain
3	Duke University	Private university, medical center
4	IBM Corporation	Computers, telecommunications
5	First Union National Bank	Banking and financial services
6	Winn-Dixie Stores, Inc.	Supermarket chain
7	Harris Teeter, Inc.	Supermarket chain
8	K-Mart Corporation	Discount store chain
9	US Air, Inc.	Airline
10	Manpower Temporary Services	Temporary employment agency
11	Duke Power Co., Inc.	Electric utility
12	Burlington Industries, Inc.	Textiles
13	Northern Telecom Inc.	Telecommunications
14	Sara Lee Corporation	Hosiery, baked goods, apparel
15	Lowe's Companies, Inc.	Hardware chain
16	United Parcel Service, Inc.	Delivery services
17	Sears, Roebuck and Company	Department store chain
18	NationsBank	Banking and financial services
19	RJR Nabisco, Inc.	Tobacco, food products
20	Broyhill Furniture Industries	Furniture manufacturing
21	Fieldcrest Cannon, Inc.	Textiles
22	Amp, Inc.	Electronic devices
23	Glaxo Wellcome Inc.	Pharmaceuticals
24	The Moses H. Cone Memorial Hospital	Hospital
25	North Carolina Baptist Hospital	Hospital

Source: North Carolina Employment Security Commission

SCHEDULE OF DEMOGRAPHIC DATA

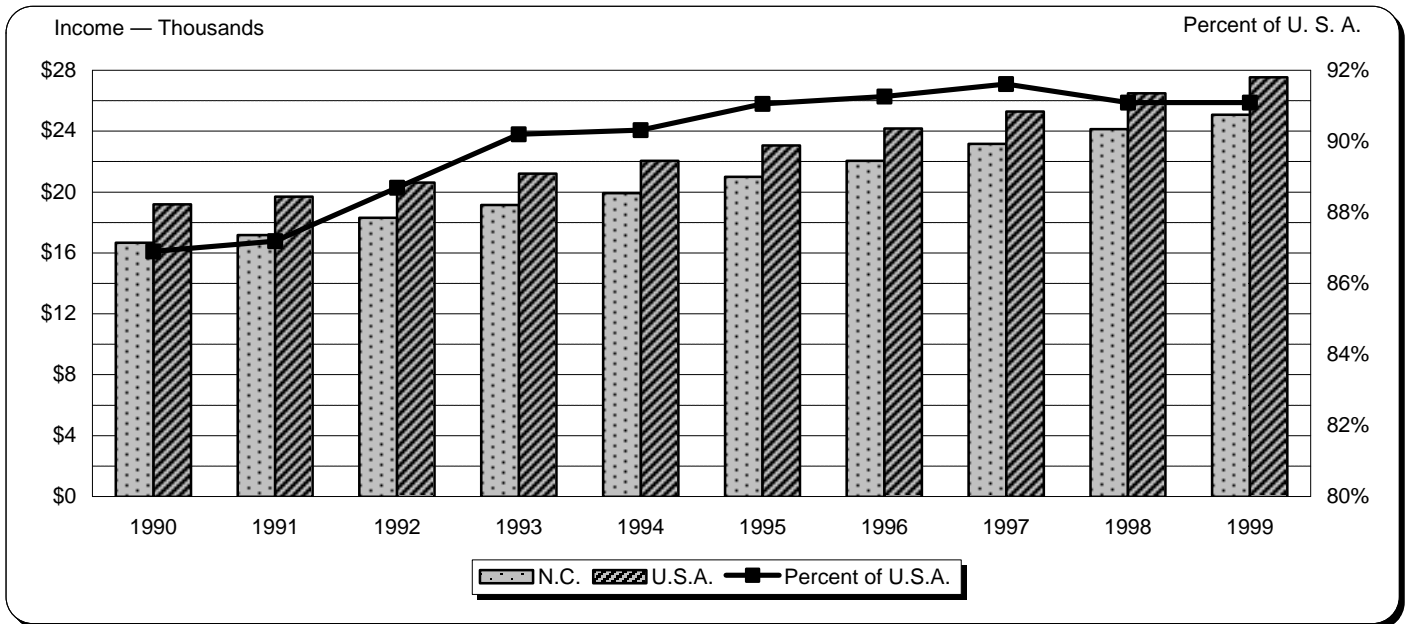
For the Years 1950, 1960, 1970, 1980, 1990-1999

Year	Population [1]				Per Capita Income [2]		
	United States Population	U.S. Increase from Prior Period	North Carolina Population	N.C. Increase from Prior Period	United States	North Carolina	N.C. as a Percentage of U.S.
1999	272,878,000 [B]	0.95%	7,658,145 [C]	1.47%	\$ 27,541 [E]	\$ 25,087 [F]	91.09%
1998	270,299,000 [B]	0.95%	7,547,090 [D]	1.57%	26,482	24,122	91.09%
1997	267,744,000 [B]	0.96%	7,430,250 [D]	1.67%	25,288	23,168	91.62%
1996	265,190,000 [B]	0.92%	7,307,943 [D]	1.70%	24,164	22,053	91.26%
1995	262,765,000 [B]	0.95%	7,186,050 [D]	1.77%	23,059	20,996	91.05%
1994	260,289,000 [B]	0.99%	7,061,352 [D]	1.62%	22,056	19,920	90.32%
1993	257,746,000 [B]	1.08%	6,948,745 [D]	1.70%	21,220	19,140	90.20%
1992	254,995,000 [B]	1.14%	6,832,503 [D]	1.26%	20,631	18,299	88.70%
1991	252,127,000 [B]	1.37%	6,747,433 [D]	1.73%	19,687	17,165	87.19%
1990	248,718,000 [A]	1.73%	6,632,448 [A]	2.30%	19,188	16,674	86.90%
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 - 1999)
 [C] - N.C. Office of State Planning projection - July 1, 1999 based on April, 1990, census population of 6,632,448

[D] - N.C. Office of State Planning estimate - July 1, 1991-1998, based on April, 1990 census population of 6,632,448
 [E] - U.S. Department of Commerce estimate
 [F] - N.C. OSBM estimate

**Per Capita Income
 North Carolina Compared to United States
 1990 to 1999**

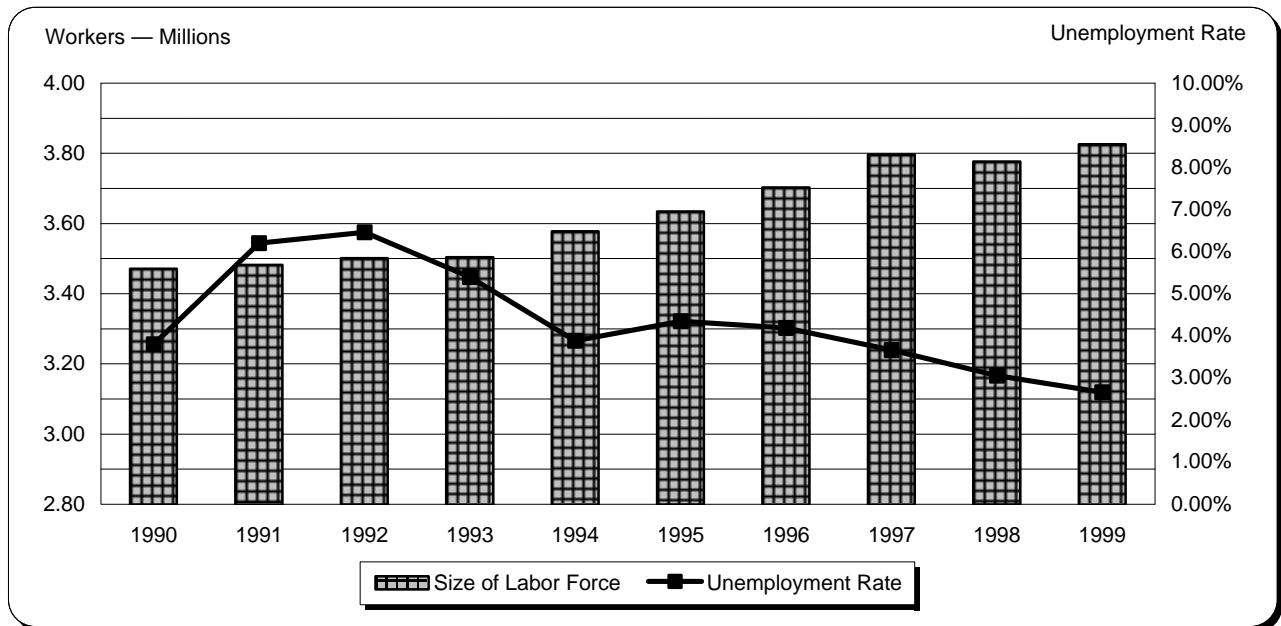


Sources: [1] Population *U.S. Department of Commerce, Bureau of the Census*
 [2] Per Capita Income *N.C. Office of State Planning*
U.S. Department of Commerce, Bureau of Economic Analysis
 [3] Labor Force Data - As of June 30 *N.C. Office of State Budget and Management*
N.C. Employment Security Commission

Table 9

North Carolina Civilian Labor Force Data [3]					North Carolina - Other Data		
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	[4] Public School Enrollment	[5] Motor Vehicles Registered	[6] Residential Construction Authorized
1999	3,826,000	3,724,100	101,900	2.66%	1,229,929	6,911,814	58,820
1998	3,776,300	3,661,000	115,300	3.05%	1,208,368	6,428,104	103,432
1997	3,796,900	3,657,800	139,100	3.66%	1,183,335	6,392,269	93,609
1996	3,703,000	3,548,000	155,000	4.19%	1,156,885	6,303,969	89,485
1995	3,634,000	3,476,000	158,000	4.35%	1,131,090	6,167,660	85,215
1994	3,578,000	3,439,000	139,000	3.88%	1,108,625	5,889,588	114,468
1993	3,504,000	3,315,000	189,000	5.39%	1,093,683	5,870,252	54,788
1992	3,501,000	3,275,000	226,000	6.46%	1,080,223	5,695,022	49,482
1991	3,482,000	3,266,000	216,000	6.20%	1,070,297	5,681,199	38,743
1990	3,471,000	3,339,000	132,000	3.80%	1,065,399	5,600,050	30,471
1980	2,759,197	2,607,925	151,272	5.48%	1,191,342	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	1,217,024	3,218,292	(Data
1960	1,680,442	1,605,478	74,964	4.46%	1,105,412	1,907,988	not
1950	1,512,924	1,463,352	49,572	3.28%	893,745	1,171,228	available)

**Civilian Labor Force Trends
With Unemployment Percentages
1990 to 1999**



Sources: [4] Public School Enrollment - Final Average Daily Membership N.C. Department of Public Instruction for the School Year September 1 to June 30
 [5] Motor Vehicle Registrations - For the Fiscal Year Ended June 30 N.C. Division of Motor Vehicles
 [6] Residential Housing Permits - Current Year for the Six Months Ended June 30, 1999; Prior Years for the Calendar Years Ended December 31 N.C. Department of Labor

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

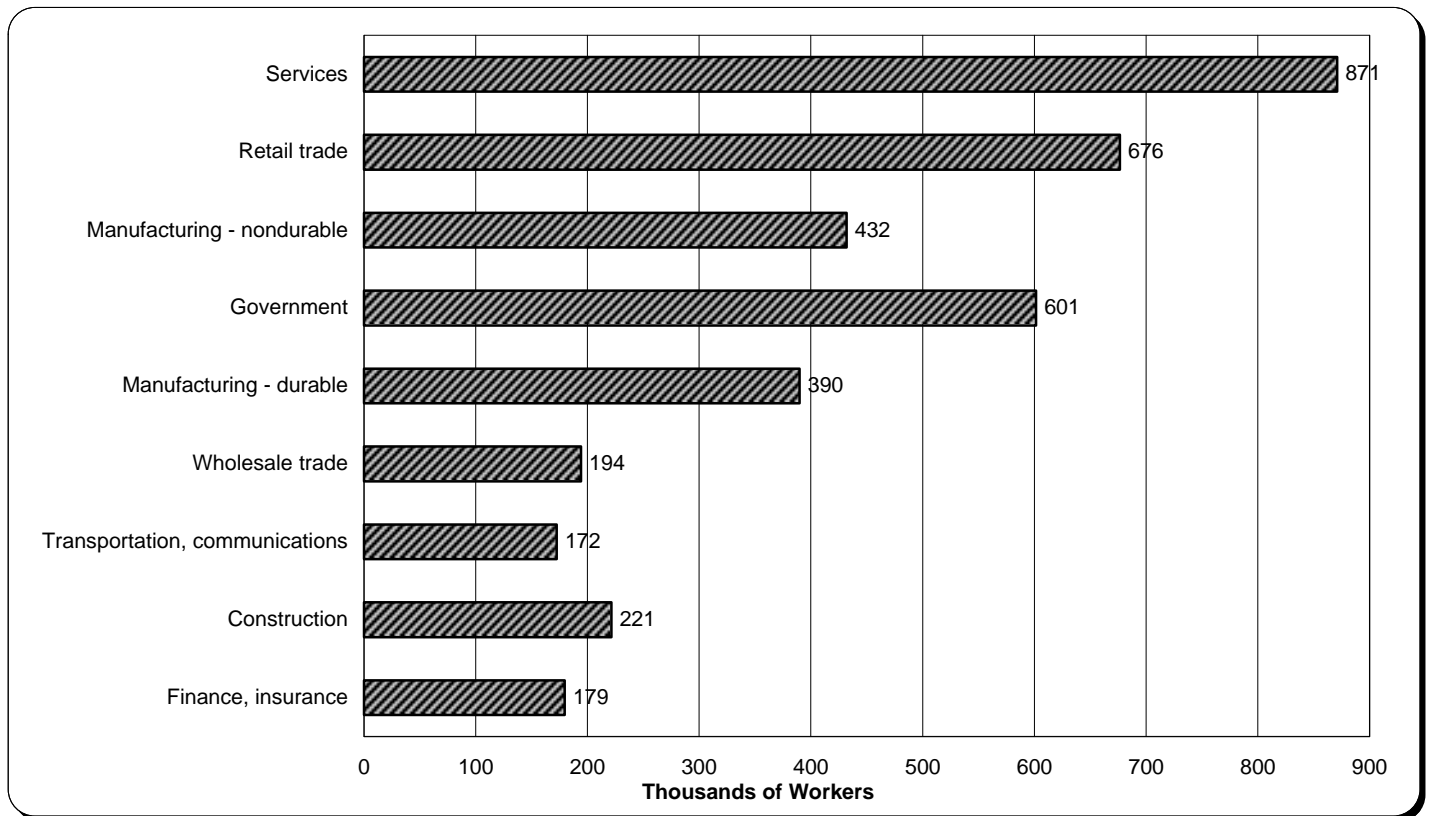
For the Calendar Years 1989-1998

Table 10

(Expressed in Thousands of Workers)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Manufacturing:										
Nondurable goods.....	431.7	452.5	407.9	478.4	496.1	496.8	497.7	494.9	501.2	519.8
Durable goods.....	389.7	387.0	435.6	379.0	372.0	357.5	341.4	337.5	343.9	350.4
Retail trade.....	676.4	671.5	652.6	643.5	610.4	585.8	564.9	549.7	554.6	557.4
Services.....	870.7	825.9	784.0	729.0	687.6	655.4	612.7	566.6	555.5	526.0
Government.....	601.1	577.3	559.5	547.8	538.5	524.1	513.8	494.4	486.9	475.6
Contract construction.....	221.2	209.2	196.8	178.5	170.5	159.0	148.5	146.0	159.0	163.6
Wholesale trade.....	193.9	191.1	182.0	185.1	177.9	168.8	168.8	166.5	167.2	168.0
Transportation, communi- cations and public utilities.....	172.2	171.1	167.8	165.1	162.1	157.5	153.5	151.5	150.3	149.2
Finance, insurance and real estate.....	179.3	167.2	157.1	146.9	143.2	137.8	133.3	132.4	132.1	130.1
Mining.....	4.0	4.0	3.8	3.7	3.6	3.4	3.4	4.9	5.1	4.8
Total Non-Agricultural Employment.....	<u>3,740.2</u>	<u>3,656.8</u>	<u>3,547.1</u>	<u>3,457.0</u>	<u>3,361.9</u>	<u>3,246.1</u>	<u>3,138.0</u>	<u>3,044.4</u>	<u>3,055.8</u>	<u>3,044.9</u>
Manufacturing.....	821.4	839.5	843.5	857.4	868.1	854.3	839.1	832.4	845.1	870.2
Non-Manufacturing.....	2,918.8	2,817.3	2,703.6	2,599.6	2,493.8	2,391.8	2,298.9	2,212.0	2,210.7	2,174.7

**Number of Employees by Industry - 1998
(Non-Agricultural)**



Source: North Carolina Employment Security Commission (Data for 1999 is not available.)

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REQUIRED SUPPLEMENTARY INFORMATION
NINE-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 1991 - 1999

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 nine 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
NINE-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
 For the Fiscal Years Ended June 30, 1991 – 1999

Table 11

As data for individual policy years mature, the correlation between original estimated and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns in the table present data for successive policy years. Amounts are expressed in thousands.

	Fiscal Year								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
1) Required contribution and investment revenue:									
Earned.....	\$ 6,513	\$ 6,386	\$ 6,805	\$ 6,573	\$ 6,749	\$ 7,180	\$ 7,099	\$ 8,354	\$ 6,343
Ceded.....	n/a	n/a	441	1,834	2,134	2,264	2,298	2,041	1,683
Net earned.....	6,513	6,386	6,364	4,739	4,615	4,916	4,801	6,313	4,660
2) Unallocated expenses	1,124	1,489	1,109	2,511	2,843	2,909	2,941	2,706	2,398
3) Estimated claims and expenses, end of policy year:									
Incurred.....	4,879	1,230	3,128	4,426	5,078	3,246	14,351	8,496	8,615
Ceded.....	—	—	—	—	359	—	6,862	700	357
Net incurred.....	4,879	1,230	3,128	4,426	4,719	3,246	7,489	7,796	8,258
4) Paid (cumulative) as of:									
End of policy year.....	3,499	781	1,468	2,741	3,790	2,061	9,595	2,044	4,077
One year later.....	4,937	1,092	3,221	4,348	5,107	3,723	13,129	4,193	
Two years later.....	4,970	1,141	3,295	4,429	5,242	3,742	13,803		
Three years later.....	4,975	1,151	3,295	4,437	5,246	3,744			
Four years later.....	4,975	1,151	3,295	4,440	5,246				
Five years later.....	4,975	1,151	3,295	4,440					
Six years later.....	4,975	1,151	3,295						
Seven years later.....	4,975	1,151							
Eight years later.....	4,975								
5) Reestimated ceded claims and expenses.....	—	—	—	—	359	—	6,862	700	357
6) Reestimated net incurred claims and expenses:									
End of policy year.....	4,879	1,230	3,128	4,426	4,719	3,246	7,489	7,796	8,258
One year later.....	4,997	1,219	3,524	4,445	4,943	3,814	6,771	3,724	
Two years later.....	5,000	1,152	3,460	4,445	4,927	3,789	7,023		
Three years later.....	4,998	1,151	3,334	4,445	4,887	3,765			
Four years later.....	4,975	1,151	3,299	4,440	4,887				
Five years later.....	4,975	1,151	3,295	4,440					
Six years later.....	4,975	1,151	3,295						
Seven years later.....	4,975	1,151							
Eight years later.....	4,975								
7) Increase (decrease) in estimated net incurred claims and expense from end of policy year.....	96	(79)	167	14	168	519	(466)	(4,072)	—

n/a = not available

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

For the Fiscal Years 1990-1999

Table 12

<u>State Agency</u>	<i>Fiscal Years Ended June 30</i>									
	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Education:										
Public education [1] ..	130,525	127,578	123,027	116,695	113,123	108,649	108,539	106,847	107,077	105,244
Higher education.....	31,556	31,173	30,607	30,386	30,094	29,611	31,621	28,702	28,225	30,478
Community colleges.....	11,192	10,534	10,309	10,729	10,814	10,892	10,660	10,076	10,005	9,626
Total Education.....	173,273	169,285	163,943	157,810	154,031	149,152	150,820	145,625	145,307	145,348
% Annual growth.....	2.36%	3.26%	3.89%	2.45%	3.27%	(1.11)%	3.57%	0.22%	(0.03)%	
% Cumulative growth.....	19.21%	16.47%	12.79%	8.57%	5.97%	2.62%	3.76%	0.19%	(0.03)%	
All Other:										
Health and human services [2].....	18,606	19,724	18,373	18,373	18,191	17,753	17,159	17,008	17,155	16,823
% Annual growth.....	(5.67)%	7.35%	0.00%	1.00%	2.47%	3.46%	0.89%	(0.86)%	1.97%	
% Cumulative growth.....	10.60%	17.24%	9.21%	9.21%	8.13%	5.53%	2.00%	1.10%	1.97%	
Correction	18,796	19,774	19,099	18,879	17,890	13,592	13,336	13,176	12,426	11,209
% Annual growth.....	(4.95)%	3.53%	1.17%	5.53%	31.62%	1.92%	1.21%	6.04%	10.86%	
% Cumulative growth.....	67.69%	76.41%	70.39%	68.43%	59.60%	21.26%	18.98%	17.55%	10.86%	
Transportation.....	16,081	17,010	16,536	16,411	16,593	15,451	15,556	15,096	15,127	14,560
% Annual growth.....	(5.46)%	2.87%	0.76%	(1.10)%	7.39%	(0.67)%	3.05%	(0.20)%	3.89%	
% Cumulative growth.....	10.45%	16.83%	13.57%	12.71%	13.96%	6.12%	6.84%	3.68%	3.89%	
Judicial	5,337	5,486	5,124	4,978	5,002	4,915	4,628	4,471	4,474	4,271
% Annual growth.....	(2.72)%	7.06%	2.93%	(0.48)%	1.77%	6.20%	3.51%	(0.07)%	4.75%	
% Cumulative growth.....	24.96%	28.45%	19.97%	16.55%	17.12%	15.08%	8.36%	4.68%	4.75%	
Other.....	17,465	16,457	16,964	16,730	16,921	16,186	15,425	15,267	15,574	15,468
% Annual growth.....	6.13%	(2.99)%	1.40%	(1.13)%	4.54%	4.93%	1.03%	(1.97)%	0.69%	
% Cumulative growth.....	12.91%	6.39%	9.67%	8.16%	9.39%	4.64%	(0.28)%	(1.30)%	0.69%	
Total Positions.....	<u>249,558</u>	<u>247,736</u>	<u>240,039</u>	<u>233,181</u>	<u>228,628</u>	<u>217,049</u>	<u>216,924</u>	<u>210,643</u>	<u>210,063</u>	<u>207,679</u>

[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. The positions for youth services are included in the "Other" category in 1999 and in the "Health and human services" category in fiscal years prior to 1999.

Source: North Carolina Office of State Budget and Management

N.C. population (1000's)	7,658	7,547	7,430	7,308	7,186	7,061	6,949	6,833	6,747	6,632
Annual growth	1.47%	1.57%	1.67%	1.70%	1.77%	1.61%	1.70%	1.27%	1.73%	
Cumulative growth	15.47%	13.80%	12.03%	10.19%	8.35%	6.47%	4.78%	3.03%	1.73%	

SCHEDULE OF MISCELLANEOUS STATISTICS

As of June 30, 1999

Table 13

Adoption of State Constitution.....	1776, 1868, 1971
Form of government.....	Executive, Legislative, Judicial
Land area:	
Square miles.....	50,000
Acres.....	31,999,760
Miles of highway.....	77,978
State police protection:	
Number of stations.....	61
Number of state police.....	1,420
Higher Education:	
<i>Community colleges</i>	
Number of campuses.....	58
Number of students [average annual full time equivalent (FTE)].....	138,548
Number of curriculum instructors (budgeted).....	6,416
<i>State universities</i>	
Number of campuses.....	16
Number of regular term students (FTE).....	134,581
Number of regular term teaching positions (FTE).....	9,488
Recreation:	
Number of State parks and other recreational areas.....	51
Area of State parks (acres).....	158,734
Area of State forests (acres).....	316,580

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

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Raleigh, North Carolina 27699-1410**

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Cover Photograph by Jim Bounds, The News and Observer, Raleigh, North Carolina

Cape Lookout Lighthouse, Shackleford Banks wild horses. The Cape Lookout Lighthouse is located east, southeast of Morehead City, North Carolina. The Cape Lookout Lighthouse was completed in 1859. It became the model for construction of the other three Outer Banks lighthouses (Cape Hatteras, Bodie Island, and Currituck Beach).

The Shackleford Banks wild horses, in the foreground, are believed to be descended from Spanish horses. It is believed that these horses have lived on the Outer Banks of North Carolina since the early 1500's.

For more information on the internet:

Search the world-wide web for *Cape Lookout Lighthouse, Shackleford Banks, or Shackleford horses.*

FY2000

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