NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2005

MICHAEL F. EASLEY
GOVERNOR

ROBERT L. POWELL
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.

MICHAEL F. EASLEY
Governor of North Carolina

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INTRODUCTORY SECTION

State of North Carolina
Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

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

It is our pleasure to furnish you with the 2005 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.39. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143-20.1 requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for exhibits and notes clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

For the convenience of users we have divided the CAFR into three major sections, described as follows:

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

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

In compliance with State statute, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

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GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of management discussion and analysis (MD&A). This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund and the EPA Revolving Loan Fund. The MD&A can be found immediately following the Independent Auditor's Report.

Profile of the Government

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System; the State's community colleges; Golden LEAF, Inc., North Carolina Housing Finance Agency, and North Carolina State Education Assistance Authority. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including public education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

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

Economic Condition

Prospects for Fiscal Year 2005-06

The consensus revenue estimate for the upcoming fiscal year took a cautious stance regarding the portion of the 2004-05 revenue surplus that is counted as recurring. This was accomplished by not including in the 2005-06 forecast base certain items which were clearly one-time in nature and being cautious on the April surprise amount. In addition, the economy-based revenue growth estimate for 2005-06 was lowered from the 5.4% rate used in February as part of the Governor's proposed budget to 4.8% in the enacted budget. For reference purposes, the long-term average rate for North Carolina is around 6.0%.

The primary reason for reducing baseline revenue growth is that prolonged exposure to higher energy prices and interest rate hikes by the Federal Reserve has already led to the first signs of what economists call a "mid-decade slowdown". Similar events took place during the 1984-86 period after the Federal Reserve raised rates to rein in the overheated economic recovery, and in 1995 after the Fed pushed up short-term rates from 3% to 6% during an 11-month period. The typical time lag between higher interest rates and national economic growth is about one year. The same is generally true of rising energy prices. This means that we are at the point where the full impact of the Fed's actions in raising short term interest rates from 1% to 3.75% and record fuel prices should begin to restrict economic growth.

For now, recent news on the state economic front continues to be very favorable. The primary success has to do with real gains in the job market. In recent months we have begun to see "help wanted" signs for the first time during this recovery. In addition, the difficulty some employers in urban areas are having in filling some positions is exerting upward pressure on wage rates. The acceleration in withholding payments is gratifying for a couple of reasons. First, this revenue source amounts to almost 40% of the total base (personal income tax as a whole amounts to 52%). The other is that it has taken an unusually long time for us to get to this point. During the first two years of the recovery from the 1990-91 recession, withholding tax growth ranged from 8% to 11%. This time around the range was 1% to 4% and it has taken almost three years from the "official" end of the recession to reach the 8% mark. With interest rates rising it is unlikely that we will see any double-digit quarters.

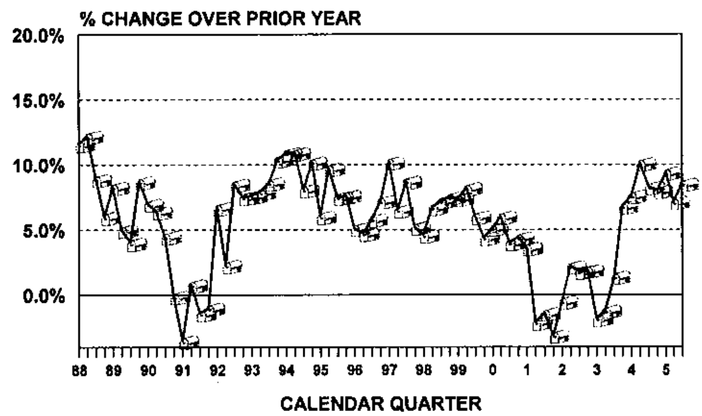
When we look at the published employment data, we have to wonder where the withholding tax base growth is coming from. According to the Employment Security Commission (ESC), net job growth in the state between August 2004 and August 2005 was only .9% (36,400 employees) and wage rate increases are probably no more than 4%. One factor might be the fact that during recoveries the preliminary ESC data understates employment growth because its employer survey does not pick up start-up firms. Another fact is that bonuses are rising due to strong corporate profit growth. Finally, improved profit margins are reflected in more stock options and some of this income shows up in withholding payments.

The key to North Carolina's business cycle experience continues to be our dependence on the declining manufacturing sector (15% of all nonagricultural employment in N.C. vs. 11% for the nation). This is the reason our downturn began earlier than the national experience and why our recovery has been slow in coming. The result is that the state has lost the "recovery premium" normally experienced during a business cycle recovery. For example, the state's economy grew 33% faster than the national experience following the 1981-82 recession and 45% stronger following the Gulf War downturn. Expressed another way, North Carolina was the fifth fastest growing state during the 1992-93 period in terms of personal income. The favorable North Carolina experience was due to the fact that manufacturing employment in the state actually rose during this recovery. This time around we are continuing to shed manufacturing jobs and our turnaround has been 10% **slower** than the U.S. Problems in the manufacturing side of the economy began well before the 2001 recession.

Data indicates that manufacturing employment grew by 2.2% in 2003. After a leveling off period, manufacturing jobs began a steady decline in 1996 due to the mild national economic slowdown and the kicking in of NAFTA. The rate of decline began to accelerate in February 2001 and peaked at an 8.8% rate in 2002. Particularly hard hit were the textile and apparel sectors, with North Carolina jobs in these sectors dropping over 15% on a year-over-year basis by the spring of 2001. While the rate of decline has slowed due to the economic recovery, the erosion continues. The only saving grace is that the loss of traditional jobs has been so great that these sectors exert a much smaller impact on the overall economy than in the past.

While the job market typically lags overall economic trends, retail sales tell us how the economy is performing at a particular point in time. The prospects for consumer spending are important for the state budget because the sales tax makes up 30% of the revenue base. The most surprising thing about the experience of the last two years has been the resiliency of retail sales in the face of sharply higher energy prices, terrorist warnings, and the rise in interest rates. This pattern can be illustrated by looking at sales tax receipts in North Carolina:

STATE AND LOCAL SALES TAX GROWTH



This pattern is in stark contrast to the 1999 situation where the sales tax growth dropped from 8% to 4-5% within a few months of the uptick in prices at the pump. There are a number of different reasons for the stubbornness of retail sales:

(1) the recovery in stock prices since 2003
(2) gains on investment real estate, especially in resort areas
(3) conservation efforts of consumers
(4) additional cash generated from mortgage refinancing and home equity loans
(5) the continued rise in consumer debt.

The final factor, record debt levels, will be a problem once the economy begins to slow and job prospects worsen. In addition, while consumers and businesses have adjusted their driving habits to higher prices at the pump, we are very concerned about the potential impact of sharply higher heating bills during the next few months.

Another positive has been the prolonged strength of the housing market. The 2001-02 recession was somewhat unique in business cycle history as residential construction activity and home sales remained stable in the face of worsening economic fundamentals. The key to sustainability in this market was the lowest mortgage rates in four decades. Even the recent rise in short-term interest rates has had little impact on the long end of the yield curve. Part of the reason for stability in long-term interest rates is the supply of funds from overseas economies. However, unless energy prices and the housing markets slow their rate of increase, inflation will rise beyond the modest rate of the last few years. The acceleration in prices will eventually be factored into long-term interest rates. Higher mortgage rates, combined with the sharp drop in housing affordability (rising home prices), will eventually choke-off demand for new homes.

During the next few months, we think the favorable news on the employment, retail sales, and housing front in North Carolina will begin to fade. For one thing, we have to deal with the potential impact of Hurricane Katrina. The long-term effect of the largest natural disaster in the U.S. on the economy is still very much up in the air. In the short-run, economists are concerned that the resulting rise in energy prices will shave .5-.7% of annual growth from the nation's economy for the next two quarters. At the same time numerous studies of other large-scale natural disasters have indicated a strong positive impact from the rebuilding effort. Most of the stimulus would occur during the first half of 2006 and may offset the front-end negative impact of Katrina.

The other factor we must continue to monitor is the actions of the Federal Reserve. We expect the Federal Reserve to push interest rates up to 4.5% by early 2006. Normally, the rise in fuel prices would cause the Federal Reserve to eliminate, or at least delay, future rate hikes due to the impact of the "energy tax". However, as the markets contemplate the transition to the Greenspan replacement, the regional bank presidents are sending strong signals to say that now is the time to re-exert the Federal Reserve's independence by pushing the traditional inflation fighting posture. Our quarrel with this policy stance is that if we exclude energy prices from the Consumer Price Index, the resulting "core inflation" continues to be restrained. This opens the possibility that the Federal Reserve may push interest rates to an unnecessarily high level, leading to a more serious slowdown. Thus, we should be more concerned about monetary policy coming out of Washington than the effects of Hurricane Katrina.

Though the risks to the economic outlook have become heightened, our current assessment is that the final 2005-06 revenue forecast has positioned the State well for the economic slowdown that is starting to unfold.

ECONOMIC INDICATORS (STATE FISCAL YEAR BASIS)
ANNUAL RATES OF CHANGE

	2003-04 Actual	2004-05 Actual	2005-06 Projected	2006-07 Projected
U.S. INDICATORS				
Real Economic Growth*	4.1%	3.7%	3.8%	3.1%
Nonfarm Employment	.3%	1.6%	1.8%	1.4%
Personal Income	4.6%	6.6%	5.8%	4.9%
Industrial Production	2.0%	4.0%	2.7%	2.3%
Corporate Profits (Pre-Tax)	22.0%	13.0%	25.1%	.3%
Short-Term Interest Rates (Actual Rate)	1.0%	2.2%	4.1%	4.7%
Mortgage Rates (Actual Rate)	5.9%	5.8%	6.5%	7.4%
Inflation (CPI)	2.2%	3.0%	2.8%	2.7%
NORTH CAROLINA INDICATORS				
Personal Income	4.8%	6.9%	4.8%	4.8%
Nonfarm Employment	-.5%	1.7%	1.5%	1.4%
Unemployment Rate (Actual Rate)	6.1%	5.3%	5.2%	5.2%
Average Hourly Earnings (Manufacturing)	4.6%	2.7%	1.5%	3.4%
Retail Sales	7.3%	8.0%	4.7%	4.3%
Housing Activity	13.1%	4.1%	-4.4%	-16.0%
Auto Sales	-6.8%	-.8%	2.0%	-4.2%

*Adjusted for inflation.

— Economic analysis prepared by David Crotts, Economist
North Carolina General Assembly Fiscal Research Division
October 18, 2005

Pension Benefits

The State contributes to the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund, the Supplemental Retirement Income Plan of North Carolina, and the North Carolina National Guard Pension Fund. The Local Governmental Employees' Retirement System is administered by the State but the State is not a participant.

The retirement systems experienced a total return from investments of 9.85% for the one-year period, a return of 9.79% for the three-year period and a return of 4.31% for the five-year period, ended June 30, 2005. These returns represent strong investment results, and reflect the conservative asset allocation and attention to investment quality that have guided the plan's investment policy.

The Teachers' and State Employees' Retirement System (TSERS), the largest of the pension trust funds, continued to be fully funded, based on the December 31, 2004 actuarial valuation. Specifically, the TSERS was funded at 108.1%, with the actuarial value of assets of $47.4 billion exceeding the actuarial accrued liability of $43.8 billion by $3.6 billion at December 31, 2004. Employer contributions to the TSERS increased by $194.4 million above the prior fiscal year ended June 30. Investment balances increased by $2.99 billion, or 6.4% above the prior fiscal year, with a net investment income of $4.5 billion. The TSERS experienced a $173.9 million increase in benefit payments to retirees, an increase of 7.99% from fiscal year 2004.

Debt Administration

You will find a more in-depth discussion of the State's long-term debt in the MD&A. The State's general obligation bonds are rated Aa1 by Moody's, AAA by Standard & Poors, and AAA by Fitch. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers.

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming 10 fiscal years.

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 2005, 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 2.875%.

Risk Management

The State maintains self-insurance programs for employee health; general liability; medical malpractice; workers' compensation; and automobile, fire and other property losses. The State limits its risk for general liability; medical malpractice; and automobile fire and other property losses by purchasing private insurance for losses in excess of deductibles. See Note 14 of the Notes to the Financial Statements for a full description of the State's risk management program.

Issues and Observations

The Future of Financial Management in North Carolina

The State of North Carolina, like most state governments in the United States, plans, budgets, and manages operations funded by its General Fund on a cash basis. In the most basic sense, we run the General Fund like many of you may monitor your checkbook at home. At home, we think about what we bring home in net pay over the next several months and we write checks based on what we have available in the check book. Only when we go to the local financial institution to borrow money for a car or a home, are we forced to look at all of our income and all of our expenses, our assets and our debts to prove that we are capable of supporting the additional payments required to repay the loan we are seeking. Even then, there is little or no account of deferred maintenance on our personal assets, or other future spending for unmet personal or family needs. At home, we generally operate based on cash flow.

On a daily basis, State officials hear the suggestion that the State needs to be more responsive to its citizenry and operate more like a business, that is to say operate more like private industry. State Government is big business. For the fiscal year ended June 30, 2005, the State's CAFR reported on $149.3 billion of assets within its financial reporting entity umbrella (including fiduciary funds). For fiscal year 2005, on a cash basis the General Fund spent over $29.1 billion, including $15.8 billion of state appropriation expenditures.

Big businesses in private industry operate on an accrual basis. They record revenues in the period they are earned and expenses in the periods they are incurred. In contrast, most state governments manage their operating budgets in a variety of ways...most of the time on a cash basis. The State of Michigan is a notable exception; having recently implemented an accrual based accounting system with accrual elements in its General Fund budget management process. Governmental entities all over the United States are beginning to grapple with the notion of injecting accrual accounting concepts into age old processes for budget management. As opposed to accrual accounting, there are no national standards for budget management. You cannot readily compare the budgets or budget processes of different state governments.

The Governmental Accounting Standards Board (GASB) was formed in 1984. In 1986, the General Assembly established the Office of the State Controller. One of the primary charges to the State Controller was to prepare a Comprehensive Annual Financial Report (CAFR) based on generally accepted accounting principles (GAAP) and to develop and maintain the systems and personnel to support that effort. Furthermore, the Office of the State Auditor was charged with performing an independent audit and expressing an opinion on the financial statements and note disclosures in the CAFR. The State Auditor's examination is conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The CAFR has received unqualified opinions, otherwise known as "clean opinions" from fiscal year 1994 through fiscal year 2004. Over and above the quality of financial information warranting a clean opinion, the State has received the Government Finance Officers Association *Certificate of Achievement for Excellence in Financial Reporting*. These clean opinions and awards are something the State is very proud of. However, we should be ever-vigilant and remember that clean opinions and awards are not automatic. The successes of the State Controller are directly attributed not only to the professionalism and integrity of the State Controller's technical and accounting personnel, but also to the professionalism and integrity of financial and accounting managers throughout the State of North Carolina financial reporting entity. We move to the future recognizing the need to continue to develop and protect our accounting integrity by supporting our financial and accounting professionals whenever possible. As part of the effort of assuring accounting integrity, the State Controller provides training and continuing professional education on a regular basis to state fiscal personnel.

The CAFR document is one of the most important documents available to bond raters and investors. Users of the CAFR are looking for a financial statement document that gives them the elements of standardization, consistency, and objectivity...that gives full disclosure, that follows industry practice, that is conservative in its interpretations, that in short, is based on generally accepted accounting principles. So far so good. As the GASB has matured, the issuance of new governmental accounting standards has escalated. These standards are being issued for specific reasons, that is, the user community has seen a need and the GASB has responded.

We could not be pointing to our success in financial management without the acknowledgement of the foresight the General Assembly and the State's fiscal managers have had to invest in the State's business infrastructure to meet the needs of our ever expanding business. The job of investing in our State's business future is never-ending.

What opportunities do we have to improve financial management? The process of improvement has begun. The General Assembly and the State's fiscal leaders have put the process in motion with the investment of time, effort and money to support the implementation of an up-to-date human resource/payroll system and the development of a statewide data warehouse. Soon to follow will be the much larger scale effort to replace the State's accounting system with an ERP (*enterprise resource planning*) system that will more completely integrate our human resource and financial information systems. This new ERP system will have the off-the-shelf capability of doing accrual accounting and budgeting, and will incorporate best business practices. As we look to implement new systems, the major question arises as to whether we are investing in new systems to do our business *the old way*, or whether we want to take full advantage of our investment and the best business practice capabilities of a state-of-the-art ERP system. Should we pay to initially amend and then maintain the ERP system to do cash basis accounting and budgeting as we have always done, and possibly limit the ERP's capabilities...or should we make a move to the future by incorporating accrual concepts into our budget management process? The State's current accounting system was implemented in 1995. Therefore, we are making decisions in 2005 that can affect us for the next 10, 15, or 20 years into the future.

North Carolina State Lottery

On August 30, 2005 the General Assembly passed House Bill 1023, North Carolina State Lottery Act. North Carolina becomes the last state on the east coast to approve a lottery. In accordance with House Bill 1023 and Senate Bill 622, 2005 Appropriations Act, the net proceeds of the lottery will be used to further the goal of providing enhanced educational opportunities, to support public school construction, and to fund college and university scholarships.

The nine-member Lottery Commission is located in the Department of Commerce for budgetary purposes. The North Carolina State Lottery (Lottery) is defined in legislation as an enterprise fund of the State of North Carolina. Lottery financial information and disclosures will be included in the CAFR for the fiscal year ending June 30, 2006, with the expectation that the Lottery is to begin operations during the 2005-06 fiscal year. It is estimated that once fully operational, the Lottery will contribute over $200 million annually to the General Fund.

The Lottery will be responsible for the same monthly and annual accounting and reporting as other state agencies. Additionally, the Commission will send quarterly and annual reports on the operations of the Commission to the Governor, State Treasurer, and to the General Assembly. The reports will include complete statements of lottery revenues, prize disbursements, expenses, net revenues, and all other financial transactions involving lottery funds, including the occurrence of any audit.

In accordance with House Bill 1023, the books and records must be accurate and complete and permit the preparation of financial statements in conformity with *generally accepted accounting principles* (GAAP). The Lottery's financial statements will be prepared based on GAAP as promulgated by the Governmental Accounting Standards Board (GASB).

The funds remaining in the North Carolina State Lottery Fund after receipt of all revenues to the Lottery Fund and after accrual of all obligations of the Commission for prizes and expenses will be considered to be the net revenues (*at least 35% of total revenues*) of the North Carolina State Lottery Fund.

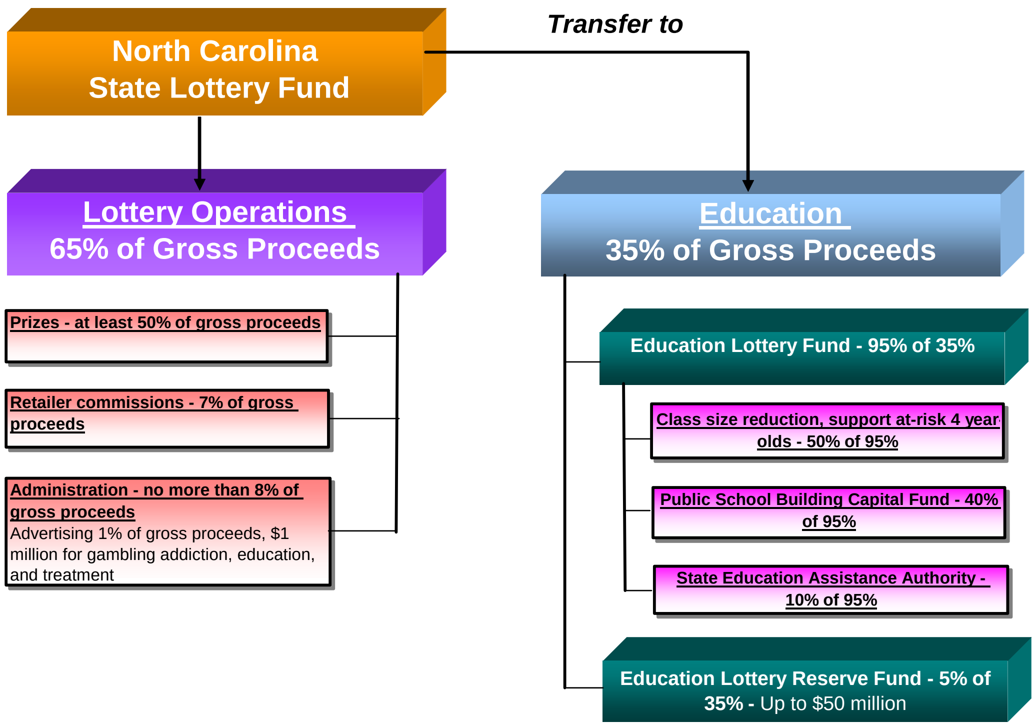
The net revenues of the North Carolina State Lottery Fund will be transferred periodically to the Education Lottery Fund. From the Education Lottery Fund, the Commission will transfer 5% of the net revenue of the prior year to the Education Lottery Reserve Fund. The Education Lottery Reserve

Fund will be capped at $50 million. The Commission will distribute the remaining net revenue of the Education Lottery Fund, in the following manner:

(1) 50% to support reduction of class size in early grades to class size allotments not exceeding 1:18 in order to eliminate achievement gaps and to support academic pre-kindergarten programs for at-risk four-year-olds who would otherwise not be served in a high-quality education program in order to help those four-year-olds be prepared developmentally to succeed in school.

(2) 40% to the Public School Building Capital Fund.

(3) 10% to the State Education Assistance Authority to fund college and university scholarships.



The General Assembly will appropriate these funds annually based on estimates of lottery net revenue recognized in the Education Lottery Fund. If the actual net revenues are less than the appropriation for a particular year, the Governor may transfer from the Education Lottery Reserve Fund an amount sufficient to equal the appropriation by the General Assembly. If the monies available in the Education Lottery Reserve Fund are insufficient to reach a full appropriation, the Governor will transfer monies in order of priority, to the following:

(1) support academic pre-kindergarten programs for at-risk four-year-olds who would otherwise not be served in a high-quality education program in order to help those four-year-olds be prepared developmentally to succeed in school;
(2) reduce class size;
(3) provide financial aid for needy students to attend college; and
(4) support the Public School Building Capital Fund.

If the actual net revenues exceed the amounts appropriated in that fiscal year, the excess net revenues will remain in the Education Lottery Fund, and then be transferred as follows:

(1) 50% to the Public School Building Capital Fund.
(2) 50% to the State Education Assistance Authority.

The State Treasurer is authorized to loan up to $10 million to the North Carolina State Lottery Commission to cover initial operating expenses.

Human Resource Management in State Government

Office of State Personnel Study. In February 2005, the Office of State Personnel (OSP) published its annual Compensation and Benefits Report. North Carolina's official pay philosophy states that, *"It is the policy of the State to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce."* However, the most recent OSP report continues to support the notion, as the report has in recent years, that we are falling further behind relative to private industry, to local governments in North Carolina, and to neighboring state governments in pay and total compensation for our state employees. The report describes the compounding problem over the next 10 years, that state agencies in the Raleigh and Research Triangle Park area will encounter as they will be competing for employees and attempting to retain employees in one of the fasted growing job markets in the country. Further concern is generated by the recent warnings of the nation's human resource staffing experts that competition for qualified, competent employees will be fierce over the next 10 to 25 years, with the trend of increasing retirements and fewer young people entering the workforce.

All state and local governments are working to come to terms with the issues addressed in the OSP study. Various strategies cited across the nation may include improvements in technology (ERP) to accommodate a smaller workforce, implementation of deferred retirement option programs (DROP) to slow the increasing trend of retirements, improvements in compensation for targeted hard-to-hire positions, and improved retirement savings options.

State Business Infrastructure Program (SBIP)

HR/Payroll Project. The 2005 General Assembly appropriated $20.875 million for the 2005-06 fiscal year to begin the replacement of the HR/Payroll system. The State completed negotiations with SAP in September. SAP will be the software provider for the business infrastructure moving forward. An RFP has been issued for a systems integrator to implement the new system. Our goal is to have the integrator on board by the end of January and the new system in place by January 2008. We are currently identifying the state project team that will be responsible for working with the integrator to put the new system in place. The HR/payroll project team will consist of a core project team, agency liaisons, and subject matter experts. The team will be staffed by existing state employees, along with several new hires, and each agency will designate a liaison to the HR/payroll team.

The HR/payroll project is a huge effort that will transform the way our State does business. Project benefits will include increased standardization in human resource administration and payroll processing. The new HR/payroll system will provide state-of-the-art business intelligence that will replace many manual processes, and will allow employees direct access and update capability related to personal data, benefits and leave balances.

Data Warehousing. A data warehousing workforce analysis pilot project is now underway that will combine resources of the Office of the State Controller with the Office of State Personnel, Department of State Treasurer Retirement Systems Division, Information Technology Services, and SAS. We are currently conducting a needs assessment to identify financial data that can be captured and reported through an enterprise data warehouse, in a timely manner, and in an easily retrievable format. The goal is to have information available to make the best management and policy decisions possible through an improved ability to conduct analysis, identify trends, and forecast areas for targeted workforce management.

Over the next few months, change management and communication activities will be ramped up in our effort to begin working with each State agency to prepare for project implementation.

For additional information on SBIP, you can access the SBIP website through the Office of the State Controller website at http://www.ncosc.net.

Increasing Cost of Healthcare

Health and Human Services. The Medicaid program continues to grow at a record pace, not only in North Carolina, but nationwide. The increased cost can be attributed to expansion of services provided, increased numbers of qualifying recipients, the increasing age of program beneficiaries, and increasing health care costs. State health and human service spending made up 42% of the General Fund cash basis budget in fiscal year 1995-96. Health and human services spending accounted for 48.8% of the General Fund budget for fiscal year 2004-05. During the same ten-year period, health and human services General Fund cash basis spending, including federal and state funding, more than doubled by increasing from $7.07 billion in fiscal year 1995-96 to $14.2 billion in fiscal year 2004-05. For fiscal year 2004-05, federal Medicaid funding was $5.8 billion, or 42.4% of all federal funds reported on the Schedule of Expenditures of Federal Awards.

As the economy slows, Medicaid programs and other health and human services programs are most needed, and General Fund dollars are more difficult to find to support the increased need. The two largest users of General Fund dollars are health and human services (48.8%) and public education (39.4%). Together they comprised $25.7 billion of state and federal spending, or just over 88% of the General Fund expenditures for fiscal year 2004-05.

Employee and Retiree Health Insurance. The State Health Plan provides comprehensive major medical care for employees and retirees of the State and its participating component units, and it allows for optional coverage of employee and retirees' dependents. This care is also extended to employees and retirees of the Local Education Agencies (LEAs), which are not part of the State's reporting entity. Coverage is self-funded by contributions to the State Health Plan. Contributions for employee and retiree coverage are made by the State, its participating component units, and LEAs. Contributions for dependent coverage are made by employees and retirees. Coverage is also extended to certain individuals as an other postemployment benefit. The Plan pays most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable allowances. Claims are subject to specified annual deductible and copayment requirements. The Plan disallows claims in excess of a lifetime maximum of $5 million.

For fiscal year 2004-05, employer contributions to the Plan increased by $121.5 million, or 9.7%, while member (employees and retirees) contributions declined by $26.15 million, or 8%. Claims and benefits paid increased by $292.7 million, or 20.4%. The Plan experienced a decline in net assets of $100.8 million in fiscal year 2004-05, ending the year with negative $60.5 million in net assets on an accrual basis. For fiscal year 2003-04, net assets had increased by $109.7 million.

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

Other Post-Employment Benefits

In response to concerns related to rising healthcare costs, the Governmental Accounting Standards Board (GASB) has recently issued accounting and reporting standards for other post-employment benefits. In April 2004, GASB issued **Statement No. 43,** ***Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*** (effective for fiscal year 2006-07), and in June 2004, GASB issued **Statement No. 45,** ***Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*** (effective for fiscal year 2007-08).

In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. The cost of these future benefits is a part of the cost of providing public services *today*. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits, such as life insurance and disability. Currently, the State and most other governmental employers finance OPEB plans on a pay-as-you-go basis. The financial statements generally do not report financial effects of OPEB until the promised benefits are paid, years after the related employee services are received.

These new GASB standards will improve the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service, and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. In addition, the proposed accounting change would provide information useful in assessing potential demands on the employer's future cash flows.

Three actuarial studies related to retiree healthcare have been completed as the State has worked to get its hands around this issue and how to deal with it. Each of the three studies, beginning in 1996, has reflected a substantial liability related to the State's commitment to provide healthcare to retirees and long-term disability beneficiaries. The unfunded actuarial liability has grown based on two formal studies from $5.4 billion in 1996, to $8.1 billion in 1999. More recently, based on an informal estimate, the unfunded accrued liability may be in excess of $10 billion in 2004. This informal study does not reflect any changes that may arise in 2006 due to the "Medicare Prescription Drug, Improvements, and Modernization Act of 2003". If the decision is made to continue pay-as-you-go financing, the expense on an actuarial basis is likely to be 5 to 8 times the current pay-as-you-go cost.

Beginning in fiscal year 2006-07, the actuarial data will be disclosed in the notes to the State CAFR and will also be presented as required supplementary information (RSI). The unfunded actuarial liability will not be recorded as an accounting liability but will be disclosed in the notes to the financial statements, and as required supplementary information. The actuarial study will need to be conducted at a minimum of every two years.

Quoting a May 20, 2005 article from the San Diego Tribune:

> ***A credit-rating firm, Standard & Poor's, said in a report in December that a net annual increase in retiree health obligation "would be a negative rating factor, just as an increasing net pension obligation would be." Dave Hitchcock of Standard & Poor's said that few states have reported their unfunded liability for retiree health care. But when they do, he said, "It's probably going to change behavior." One reaction might be a move to trim costs by reducing benefits. Corporations were required to begin reporting their long-term retiree health debt in the early 1990s. In the following decade, the Mercer consultants said, the number of large corporations that provide health coverage for their Medicare-eligible retirees dropped to 21 percent from 40 percent.***

Awards and Acknowledgements

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, 2004. 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 the 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 the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this Comprehensive Annual Financial Report should be directed to the Office of the State Controller at (919) 981-5454.

Respectfully submitted,

Robert L. Powell
State Controller

December 8, 2005

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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, 2004

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

President

Executive Director

ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

EXECUTIVE BRANCH

Council of State

- Governor **Michael F. Easley**
- Lieutenant Governor **Beverly E. Perdue**
- Secretary of State **Elaine F. Marshall**
- State Auditor **Leslie W. Merritt, Jr.**
- State Treasurer **Richard H. Moore**
- Superintendent of Public Instruction **Dr. June Atkinson**
- Attorney General **Roy A. Cooper, III**
- Commissioner of Agriculture **Steven W. Troxler**
- Commissioner of Labor **Cherie K. Berry**
- Commissioner of Insurance **James E. Long**

Cabinet Secretaries — Appointed by the Governor

- Administration **Gywnn T. Swinson**
- Correction **Theodis Beck**
- Crime Control and Public Safety **Bryan E. Beatty**
- Cultural Resources **Lisbeth C. Evans**
- Commerce **James T. Fain**
- Environment & Natural Resources **William G. Ross, Jr.**
- Health and Human Services **Carmen Hooker Odom**
- Juvenile Justice and Delinquency Prevention **George L. Sweat**
- Revenue **E. Norris Tolson**
- Transportation **W. Lyndo Tippett**

Appointed by Governor, confirmed by Legislature

- Office of the State Controller: **Robert L. Powell**, ***State Controller***
- State Board of Education: **Howard N. Lee**, ***Chairman***

Appointed by State Board of Community Colleges

- **H. Martin Lancaster**, ***President***

Appointed by University Board of Governors

- **Molly C. Broad**, ***President***

LEGISLATIVE BRANCH

General Assembly

Senate

President
Lieutenant Governor Beverly E. Perdue

President Pro Tempore
Marc Basnight

Deputy Pres. Pro Tempore
Charlie Smith Dannelly

Majority Leader
Tony Rand

Minority Leader
Phillip Berger

House of Representatives

Speaker
James B. Black

Speaker Pro Tempore
Richard T. Morgan

Majority Leader
Joe Hackney

Minority Leader
Joe Kiser

JUDICIAL BRANCH

North Carolina Supreme Court

Chief Justice
I. Beverly Lake, Jr.

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

Administrative Office of the Courts
Judge Ralph A. Walker
Director

Component Units

- *University of North Carolina System*
- *The Golden LEAF, Inc.*
- *N.C. Housing Finance Agency*
- *Community Colleges*
- *State Education Assistance Authority*
- *Other Component Units*

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FINANCIAL SECTION

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Carolina Housing Finance Agency, which represent 9 percent, 3 percent and 3 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units; the financial statements of the State Education Assistance Authority, which represent 14 percent, 5 percent and 2 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units; the financial statements of the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare, which represent 2 percent, 2 percent and 4 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units; nor the financial statements of the 401(K) Supplemental Retirement Income Plan, which represent 3 percent, 4 percent and 4 percent, respectively, of the assets, net assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare and the financial statements of the 401(K) Supplemental Retirement Income Plan were not audited in accordance with *Governmental Audit 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 opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the financial statements, the State of North Carolina implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and on compliance and other matters will be published at a later date in the State of North Carolina's *Single Audit Report*.

The Management's Discussion and Analysis on pages 32 through 50, the schedules of funding and contributions for all defined benefit pension trust funds on pages 158 and 159 and the Budgetary Comparison Schedule and Notes – General Fund on pages 160 through 163 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr. CPA, CFP
State Auditor

December 8, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following is a narrative overview and analysis of the State of North Carolina's (the State) financial performance for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

Financial Highlights

Government-wide Financial Statements:

— The State's total net assets increased by $1.302 billion or 5.5% as a result of this year's operations. Net assets of governmental activities increased by $981.8 million, or 4.3% due, in part, to higher than expected growth in tax revenues. Net assets of business-type activities increased by $320.7 million, or 41.6% due to the improved financial results of the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled $23.909 billion and $1.092 billion, respectively.

— Component units reported net assets of $12.089 billion, an increase of $1.43 billion or 13.4% from the previous year. The majority of the increase ($1.0 billion) is due to the net increase in capital assets for the University of North Carolina System and community colleges. The capital asset additions were financed in part by state debt proceeds.

Fund Financial Statements:

— The fund balance of the General Fund improved from a negative $271.9 million at June 30, 2004 (as restated) to a negative $78.8 million at June 30, 2005. A key factor in reducing the deficit was the General Assembly's decision to forgive repayment of the $125 million advanced from the Highway Trust Fund during the 2002-03 fiscal year.

— The fund balance of the Highway Fund increased from $231.2 million at June 30, 2004 to $369.4 million at June 30, 2005, an increase of 59.8%. The fund balance growth was attributable to increases in federal billings and gasoline taxes.

— The fund balance of the Highway Trust Fund decreased from $266.1 million at June 30, 2004 to a negative $2.9 million at June 30, 2005, a decrease of 101% because of the forgiveness of debt to the General Fund (see above).

— The net assets of the Unemployment Compensation Fund increased from $20.1 million at June 30, 2004 to $258.5 million at June 30, 2005. The significant increase is explained by the State's falling unemployment rate since the 2002 recession.

Capital Assets:

— The State's investment in capital assets (net of accumulated depreciation) was $27.566 billion, which represents an increase of 7.49% from the previous fiscal year.

— The largest component of capital assets, the state highway system, includes roadway surfaces, bridges, signage, railings, markings, traffic signals, and other structures related to the State's motor vehicle transportation system. The system includes 78,844 miles of roadway, constituting the second largest highway system in the nation. The system also includes 17,250 bridges spanning 380 miles. At year-end, the State reflected $14.247 billion (net of accumulated depreciation) of highway system infrastructure.

— This year's major capital asset additions were for highway construction ($1.5 billion), highway land improvements ($556 million) and the acquisition/construction of correctional facilities ($167 million).

Long-term Debt:

— The State had long-term debt outstanding of $6.483 billion, an increase of 17.1% from the previous fiscal year-end. The long-term debt balance includes $740.2 million of special obligation (non-voted) debt issued for governmental activities.

— The State maintained its AAA bond rating with Standard and Poor's and Fitch. In August 2002, Moody's downgraded the State's credit rating for general obligation debt from "AAA" to "Aa1", representing the first time since 1960 that North Carolina had less than a "AAA" rating. In September 2004, Moody's upgraded the State's outlook from stable to positive.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Assets (page 54) presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 56 and 57) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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

Business-type Activities – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund and the EPA Revolving Loan Fund are the predominant business-type activities.

Discretely Presented Component Units – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 72. All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 145 and 146).

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 168 begins the individual fund data for the non-major funds. The State's funds are divided into three categories, governmental, proprietary, and fiduciary, and they use different accounting approaches.

Governmental funds -- Most of the State's basic services are reported in the governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., inflows and outflows of spendable resources) and the balances left at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements using the modified accrual basis of accounting and a current financial resources measurement focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationships (or differences) between them. Information is presented separately in the governmental fund financial statements for the General Fund, the Highway Fund, and the Highway Trust Fund, all of which are considered to be major funds. Data for all other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds -- When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds are used to report activities for which fees are charged to external users for goods and services. The Unemployment Compensation Fund and the EPA Revolving Loan Fund are our most significant enterprise funds. Internal service funds are used to report activities that provide goods and services to the State's other programs and activities on a cost-reimbursement basis, such as the State Property Fire Insurance Fund, the Motor Fleet Management Fund, Computing Services Fund, and the State Telecommunications Services Fund. Because the State's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Unemployment Compensation Fund and the EPA Revolving Loan Fund, both of which are considered to be major funds. Conversely, separately aggregated columns are presented for the nonmajor enterprise funds and the internal service funds. Individual fund data for the nonmajor enterprise funds and internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds -- The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds, which include pension and other employee benefit trust funds, private-purpose trust funds, investment trust funds, and agency funds, are reported using accrual accounting. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to the support the State's own programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 70 of this report.

Required Supplementary Information

Following the basic financial statements and notes to the financial statements is Required Supplementary Information (RSI), which accompanies the basic financial statements. The RSI is mandated by the GASB and includes General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles (GAAP) fund balances at fiscal year-end, and pension plan trend information related to funding progress and contributions.

Other Supplementary Information

Other supplementary information includes the introductory section, the combining financial statements for non-major governmental funds, non-major enterprise funds, internal service funds, fiduciary funds, and non-major discretely presented component units.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's combined net assets increased $1.302 billion or 5.5% over the course of this fiscal year's operations. The net assets of the governmental activities increased $981.8 million or 4.3% and business-type activities increased $320.7 million or 41.6%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2005 and 2004
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other non-current assets	$ 11,958,784	$ 10,572,379	$ 1,439,494	$ 1,232,408	$ 13,398,278	$ 11,804,787
Capital assets, net	27,511,607	25,589,324	54,645	55,173	27,566,252	25,644,497
Total assets	39,470,391	36,161,703	1,494,139	1,287,581	40,964,530	37,449,284
Long-term liabilities	7,031,391	5,961,023	13,131	12,111	7,044,522	5,973,134
Other liabilities	8,529,958	7,273,393	389,398	504,577	8,919,356	7,777,970
Total liabilities	15,561,349	13,234,416	402,529	516,688	15,963,878	13,751,104
Net assets:						
Invested in capital assets, net of related debt	26,434,617	24,702,120	44,007	44,512	26,478,624	24,746,632
Restricted	1,314,397	1,451,548	970,615	665,547	2,285,012	2,117,095
Unrestricted	(3,839,972)	(3,226,381)	76,988	60,834	(3,762,984)	(3,165,547)
Total net assets	$ 23,909,042	$ 22,927,287	$ 1,091,610	$ 770,893	$ 25,000,652	$ 23,698,180

The largest component of the State's net assets ($26.479 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net assets are the next largest component ($2.285 billion). Net assets are restricted when constraints placed on their use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. The remaining portion, unrestricted net assets, consists of net assets that do not meet the definition of "restricted "or "invested in capital assets, net of related debt."

The government-wide statement of net assets for governmental activities reflects a negative $3.84 billion unrestricted net asset balance. The State of North Carolina, like many other state and local governments, issues general obligation debt and distributes the proceeds to local governments and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings on the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the $6.483 billion of total long-term debt outstanding at June 30, 2005, $5.40 billion is attributable to debt issued as State aid to component units (universities and community colleges) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. The policy of selling general obligation bonds and funneling the cash proceeds to non-primary government (non-State) entities has been in place for decades. However, by issuing such debt, the State is left to reflect significant liabilities on its statement of net assets (reflected in the unrestricted net asset component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances. Additionally, as of June 30, 2005, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $327 million (see Note 7 to the financial statements). These unfunded liabilities also contribute to the negative unrestricted net asset balance for governmental activities.

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

Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 1,672,482	$ 1,474,548	$ 1,145,976	$ 955,720	$ 2,818,458	$ 2,430,268
Operating grants and contributions	11,380,864	10,101,118	54,760	305,500	11,435,624	10,406,618
Capital grants and contributions	1,011,451	884,345	452	892	1,011,903	885,237
General revenues:						
Taxes						
Individual income tax	8,244,275	7,407,455	—	—	8,244,275	7,407,455
Corporate income tax	1,143,458	760,180	—	—	1,143,458	760,180
Sales and use tax	4,621,098	4,293,040	—	—	4,621,098	4,293,040
Gasoline tax	1,354,699	1,276,627	—	—	1,354,699	1,276,627
Franchise tax	613,033	560,708	—	—	613,033	560,708
Highway use tax	580,118	578,346	—	—	580,118	578,346
Insurance tax	442,228	432,975	—	—	442,228	432,975
Beverage tax	220,782	213,271	—	—	220,782	213,271
Inheritance tax	135,107	128,352	—	—	135,107	128,352
Other taxes	306,991	285,203	—	—	306,991	285,203
Tobacco settlement	148,800	147,224	—	—	148,800	147,224
Federal grants not restricted to specific programs	—	136,859	—	—	—	136,859
Unrestricted investment earnings	78,546	77,225	—	—	78,546	77,225
Miscellaneous	53,488	62,601	79	3	53,567	62,604
Total revenues	32,007,420	28,820,077	1,201,267	1,262,115	33,208,687	30,082,192
Expenses:						
General government	917,209	803,830	—	—	917,209	803,830
Primary and secondary education	7,699,208	7,223,766	—	—	7,699,208	7,223,766
Higher education	3,576,384	3,140,794	—	—	3,576,384	3,140,794
Health and human services	13,375,794	11,722,834	—	—	13,375,794	11,722,834
Economic development	625,561	511,335	—	—	625,561	511,335
Environment and natural resources	570,241	599,575	—	—	570,241	599,575
Public safety, corrections and regulation	2,125,385	2,093,242	—	—	2,125,385	2,093,242
Transportation	1,795,490	1,870,572	—	—	1,795,490	1,870,572
Agriculture	81,628	82,394	—	—	81,628	82,394
Interest on long-term debt	249,433	191,231	—	—	249,433	191,231
Unemployment compensation	—	—	824,934	1,389,266	824,934	1,389,266
EPA Revolving Loan	—	—	7,170	5,342	7,170	5,342
Other business-type activities	—	—	60,066	68,875	60,066	68,875
Total expenses	31,016,333	28,239,573	892,170	1,463,483	31,908,503	29,703,056
Increase (decrease) in net assets before contributions and transfers	991,087	580,504	309,097	(201,368)	1,300,184	379,136
Contributions to permanent funds	2,288	2,068	—	—	2,288	2,068
Transfers	(11,620)	581	11,620	(581)	—	—
Increase (decrease) in net assets	981,755	583,153	320,717	(201,949)	1,302,472	381,204
Net assets - beginning - restated	22,927,287	22,344,134	770,893	972,842	23,698,180	23,316,976
Net assets - ending	$ 23,909,042	$ 22,927,287	$ 1,091,610	$ 770,893	$ 25,000,652	$ 23,698,180

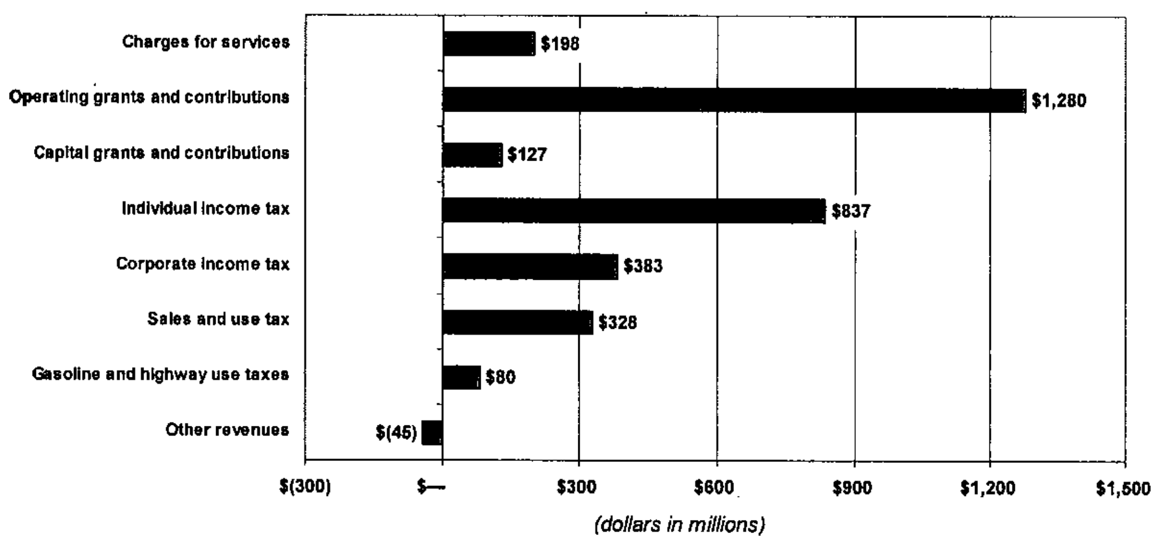
Governmental Activities

As a result of this year's operations, the net assets of governmental activities increased by $981.8 million or 4.3%. The net asset increase is primarily related to the higher than expected growth in tax revenues (e.g., individual income, corporate income, and sales taxes) and spending reversions realized during the current fiscal year. The growth in tax revenues is explained, in part, by the State's continued emphasis on compliance and collection activities and a one-time voluntary compliance program for taxpayers. This program generated an additional $288.6 million in corporate, franchise, and individual income tax for the 2004-05 fiscal year (Note: corporate income taxes generated $214.5 million). Over the last several years, the N.C. Department of Revenue has increased its collection and audit personnel. Additionally, the 2005 General Assembly authorized 60 new collection positions. The growth in corporate income taxes is also due to a combination of increased product demand and efforts by companies to hold down costs.

Total expenses of governmental activities grew by 9.8% during the current period (compared to total revenue growth of 11.1%). The majority of the spending growth was the result of funding increases in the State's two largest functional areas, education and health and human services. The increase in education spending is related to enrollment increases at the State's universities and community colleges and funding increases for the State's public schools. The growth in health and human services is the result of increased spending for Medicaid, which is the State's largest public assistance program. Expenses for Medicaid program services increased 9.7% over the prior year. The principal reason for the increase was the addition of bed assessment fees, which resulted in higher payments to nursing home providers. Also, the Medicaid program experienced higher costs in several categories of service, including hospital inpatient and outpatient, long-term care facilities, prescription drugs, and medical equipment. Because the State receives federal matching funds for the Medicaid program, there was also a corresponding increase in program revenues (e.g., operating grants and contributions).

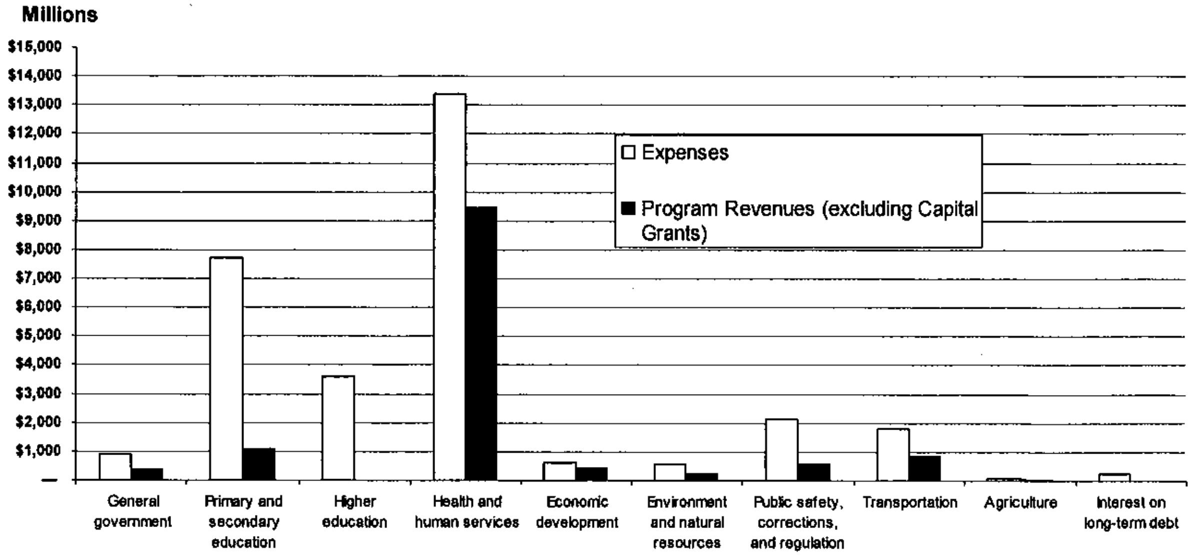
The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2004 and 2005:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2004 and 2005



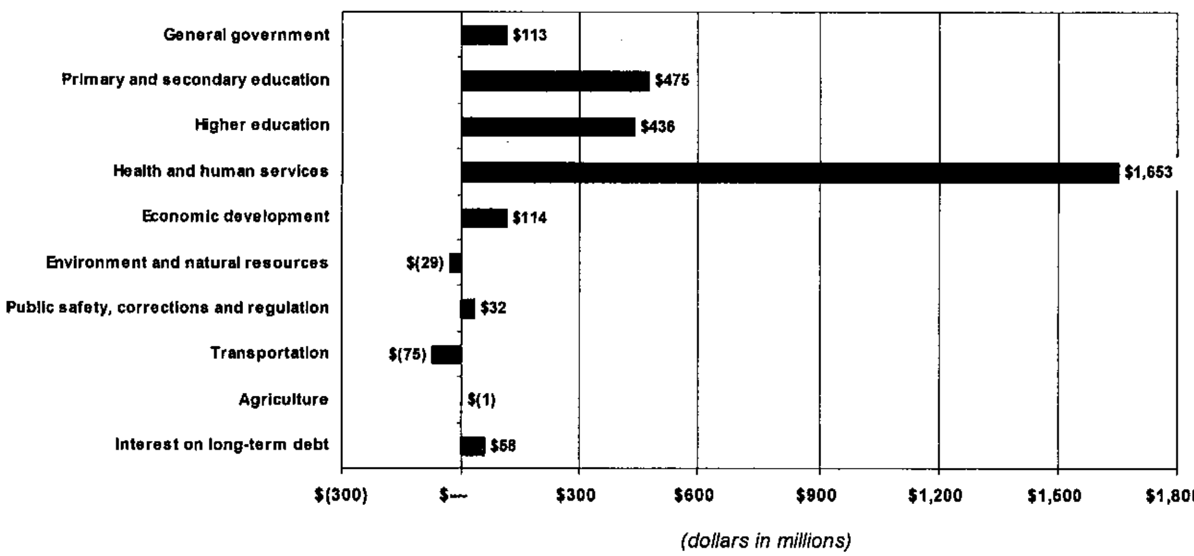
The following chart depicts the total expenses and total program revenues of the State's governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

Expenses - Governmental Activities
Fiscal Year Ended June 30, 2005



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2004 and 2005:

Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2004 and 2005



Business-type Activities

Business-type activities reflect an increase in net assets of $320.7 million or 41.6%. The growth in net assets is explained primarily by the Unemployment Compensation Fund's improved operating results for the current period. The excess of operating revenues over operating expenses for the Unemployment Compensation Fund was $244.3 million. The Unemployment Compensation Fund and the EPA Revolving Loan Fund are the predominant activities, comprising 88.6% of the total net assets of business-type activities. A more detailed discussion of the State's enterprise funds is provided in the following section.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $3.05 billion, a 3.9% increase from the prior fiscal year-end (as restated). The majority of the increase was related to revenue growth in the General Fund and the Highway Fund (major governmental funds) and to unspent debt proceeds reported in other governmental funds for the N.C. Infrastructure Corporation (Corporation), a blended component unit of the State. The Corporation issued debt during the 2004-05 fiscal year to construct and equip a close security correctional facility, to construct a new State psychiatric hospital facility and to finance higher education and other capital projects. The major governmental funds are discussed individually below.

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund improved from a negative $271.9 million at June 30, 2004 (as restated) to a negative $78.8 million at June 30, 2005. A key factor in reducing the deficit was the General Assembly's decision to forgive repayment of the $125 million advanced from the Highway Trust Fund during the 2002-03 fiscal year. The advance was reclassified to a transfer from the Highway Trust Fund to the General Fund during the 2004-05 fiscal year. Additionally, the General Fund experienced higher than expected growth in tax revenues due to the improving economic picture and one-time collections from a Voluntary Compliance Program undertaken by the N.C. Department of Revenue. The total fund deficit is explained, in part, by the excess of accrued expenditures over accrued revenues for the State's Medicaid program. The State balanced the General Fund budget on a cash basis as required by the State Constitution. A more detailed analysis of the General Fund is provided in the budgetary highlights section (see below).

2004-2005 General Fund Budgetary Highlights

The enacted General Fund budget was founded upon an overall nominal economic (real growth plus inflation) growth rate of 5.5% for 2004-05. The appropriated budget included provisions that were designed to increase General Fund revenues. The most significant revenue adjustment was the continuation of two temporary tax increases that were scheduled to expire in 2003. In 2001, the General Assembly temporarily raised the State sales tax rate by a half-cent to 4.5% and the highest individual income tax rate from 7.75% to 8.25%. The 2003-2005 biennium budget continued the State sales tax rate at 4.5% and the 8.25% income tax bracket. In addition, several streamlining and conformity provisions, as well as trust fund transfers, were authorized to increase General Fund availability. Also, the Department of Revenue was given broader authority and resources to collect unpaid tax liabilities. The following table summarizes the 2005 revenue enhancements (amounts expressed in millions).

Revenue Enhancements – 2005 Fiscal Year

Maintain State sales tax at 4.5%	$ 388.2
Maintain top income tax rate at 8.25%	92.7
Streamline tax revisions	73.0
Department of Revenue - Project Tax Collect	50.0
Tobacco settlement trust fund transfers	65.0
Other trust fund transfers	121.1
Estate tax conformity	70.8
Other enhancements	41.5
Total 2005 enhancements	**$ 902.3**

The majority of funding increases for 2005 were in the education and human service areas. The budget provided full funding for enrollment increases in the University of North Carolina System ($64.0 million), the community college system ($23.4 million), and public schools ($19.4 million). In addition, the budget included funds to hire additional public school teachers to reduce class size in the third grade ($50.5 million) and to expand the Governor's More-at-Four Program ($9.1 million), which helps prepare at-risk four-year-old children for success in school. It also provided funds for ABC teacher bonuses earned in the 2003-04 school year ($108 million).

The budget provided additional funding for the Health Insurance Program for Children ($6 million), which allows all eligible children to receive health care insurance (see Note 14C to the financial statements). In addition, expansion funds were provided for the Mental Health Trust Fund ($10 million) to facilitate the progress toward mental health reform.

The budget provided over $260 million in 2004-05 to support salary increases for employees of state agencies, the University of North Carolina System, community college institutions, and public schools. Specifically, it authorized an across-the-board salary increase of $1,000 or a 2.5% increase, whichever was greater.

State appropriations for the Medicaid Program totaled $2.4 billion in 2004-05. The General Assembly reduced general fund appropriations for the Medicaid Program by $90 million in 2004-05. This reduction was in addition to the $473 million reduction for 2004-05 that was enacted during the 2003 Session. The most significant reduction resulted from an increase in the federal participation rate ($40.2 million). Other reductions included a one percent reduction in the projected Medicaid growth rate, an additional transfer from the Medicaid Reserve Fund, and the elimination of coverage for weight loss and weight gain drugs.

During the 2000-01 fiscal year, funds were withheld from the Retirement System and remitted to the General Fund to cover a budget shortfall. Legislation was enacted in 2001 to formalize the General Assembly's intent to repay the debt, subject to the availability of funds, over a five-year period beginning July 1, 2003 (Note: the total obligation to the Retirement System was $129.9 million plus accrued interest). An initial payment of $10 million was made in October 2003 to partially repay the debt to the Retirement System. At June 30, 2004, an additional payment of $20 million was made. The 2005-06 budget authorized a payment of $25 million to the Retirement System.

General Fund Budget Variances

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

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

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

The portion of the original budget comprising departmental receipts is not intended to be the sole controlling point to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year as allowed by law. General Fund departmental receipts are typically authorized for expenditure within the activity that generated the receipt. Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies by law must spend departmental receipts prior to spending tax and nontax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

Variances – Original and Final Budget

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process. The original budget for the 2004-05 fiscal year was prepared approximately 18 months prior to the beginning of the fiscal year and 30 months prior to the final budgeted amounts. Consequently, when the original budget is compared to the final budget, it would be expected that significant variances can occur.

The increase from original to final budget for *federal funds* revenue is attributable to the awarding of new federal funds and the awarding of increased amounts in long-standing federally supported programs. Additionally, federal funds are usually budgeted to equal the maximum allowable amount awarded to the agency.

The budget increase for *intra-governmental transactions* revenue is attributable primarily to the following: $225 million of statewide encumbrance carry forward amounts from fiscal year 2003-2004, $146 million of Medicaid Disproportionate Share, $320.8 million of Department of Health and Human Services (DHHS) intra-governmental transfers within a DHHS General Fund budget code, $371.7 million of DHHS funds transferred from various budget codes within DHHS, and $265 million of non-tax revenue reclassified from the miscellaneous departmental category to intra-governmental revenue.

The budget increase for *fees, licenses, and fines* revenue is attributable to approximately $142.4 million of provider assessment fees implemented within DHHS – Medical Assistance and $8.3 million of underestimated community college tuition and fees. The budget increase for *contributions, gifts and grants* revenue is attributable primarily to DHHS budgeting $125 million of state match, which was not included in the original budget.

For expenditures, the variances between the original budget and final budget are related to the corresponding revenue budget variances. As revenue budget accounts are increased, a corresponding increase occurs in the expenditure budget accounts. In addition to those increases, agency expenditure budgets were also increased by the allocation of statewide reserves such as the legislative salary increase, health insurance, and retirement reserves.

Variances - Final Budget and Actual Results

Actual revenues for *corporate income taxes* exceeded final budget because of improving economic conditions and a one-time settlement of long-standing tax disputes.

Departmental *federal funds* actually received by agencies were $1.1 billion less than the final budget. The three agencies primarily responsible for this variance were the Department of Public Instruction ($455 million), DHHS ($428 million), and the Department of Crime Control and Public Safety ($197 million). Actual federal draw downs are reflective of the actual expenditures of these federal funds. Therefore, if qualifying costs are not incurred by the agency, then the actual drawdown of federal funds could be significantly less than what has been budgeted.

For expenditures, the variances between final budget and actual expenditures for *primary and secondary education, health and human services,* and *public safety, corrections, and regulation* occurred because actual departmental revenues were less than the budgeted revenues; therefore, expenditures that depended on the receipt of these funds could not be made.

Highway Fund

The Highway Fund dates back to 1921, which is when the N.C. General Assembly first imposed the gasoline tax. It accounts for most of the activities of the North Carolina Department of Transportation, including the maintenance and construction of the State's primary and secondary road systems, the State Highway Patrol, the Division of Motor Vehicles, and transit and rail. The primary revenue sources of the Highway Fund are federal funds, three-fourths of gasoline taxes, vehicle registration fees, and driver's license fees.

The fund balance of the Highway Fund increased from $231.2 million at June 30, 2004 to $369.4 million at June 30, 2005, an increase of 59.8%. The fund balance growth was attributable to an overall increase in total revenues and a slight reduction in total expenditures during the current period. Total revenues increased by $257 million or 10.7% primarily because of increases in Federal Highway Administration program activities and gasoline taxes. Federal billings increased by $151.5 million due to increased Federal Highway Administration construction funding and obligational ceiling limits, disaster reimbursement, and greater billing efficiency. Gasoline taxes rose $37.2 million due primarily to a 1% increase in taxable gallons sold combined with an 5.3% rise in the average fuel tax per gallon. Total expenditures decreased by $62.8 million, or 2.4%, due to a $29 million decrease in state funded construction expenditures and a $51.6 million decrease in maintenance expenditures due to cash management initiatives. These were partially offset by an increase in federal construction and public transportation expenditures.

In September 2004, the State Board of Transportation approved a new long-range plan that prioritizes transportation investment for the next 25 years. The Statewide Transportation Plan provides a blueprint for greater investment in maintenance, preservation, and modernization of the State's existing highway system as well as other transportation options such as rail and public transportation. The share of transportation dollars spent on new highway projects will drop from 45% to 26%. The highway needs of the State's growing population will be accommodated in part by maintaining and upgrading existing roads and by increasing anti-congestion measures such as synchronized traffic signals.

The centerpiece of the plan is the *Recommended Investment Scenario*, which outlines priorities from the estimated $55 billion, in today's dollars, expected to be available over the next 25 years for transportation investment. Based on this scenario, the Department of Transportation (NCDOT) will be able to meet an additional 10% of its maintenance and preservation needs and nearly 25% more modernization infrastructure needs. Additionally, the scenario proposes increasing NCDOT's investment in other transportation modes. The plan also identifies $84 billion in total transportation needs and states that NCDOT will only be able to meet two-thirds of the State's 25-year transportation needs at its current funding levels, regardless of how NCDOT's resources are allocated. Full implementation of the Recommended Investment Scenario will be gradual.

Highway Trust Fund

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet highway construction needs in North Carolina. The Highway Trust Fund also provides extra money for the State's municipalities to adequately maintain their streets and it pays the debt service on the State's general obligation bonds issued for highway purposes.

The principal revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees. The enabling legislation also specifies that a designated amount will be transferred each year to the General Fund. From the proceeds of the highway use tax, $242.5 million was transferred to the General Fund for the 2004-05 fiscal year and $252.6 million is scheduled to be transferred to the General Fund during the next two fiscal years. The General Assembly enacted legislation during the 2005-06 Session that repealed the requirement for the

General Fund to repay the $125 million (plus interest) advanced from the Highway Trust Fund during the 2002-03 fiscal year (see Note 9 to the financial statements).

The fund balance of the Highway Trust Fund decreased from $266.1 million at June 30, 2004 to a negative $2.9 million at June 30, 2005, a decrease of 101%. The substantial decrease is attributable, in part, to the General Assembly's decision to forgive repayment of the $125 million advance to the General Fund (see above). During the current period, the advance was reclassified to a transfer from the Highway Trust Fund to the General Fund.

Total revenues increased by $23.5 million or 2.4%, primarily because of increases in the gasoline tax, motor vehicle fees, licenses, and fines. Total expenditures increased by $222.7 million or 26.8%. In 2003 the General Assembly passed the Governor's "Moving Ahead" transportation initiative to allow, over two years, the use of $630 million of Highway Trust Fund cash balances for highway preservation, modernization, and maintenance. More than 2,200 miles of highway are being improved through "Moving Ahead". Additionally, it allows $70 million for public transit, rail, ferry, bicycle, and pedestrian projects. As of June 30, 2005, "Moving Ahead" expenditures totaled $290.2 million of the $700 million authorized. Transportation expenditures increased by $185.1 million primarily due to the advancement of the Governor's "Moving Ahead" transportation initiative.

Bond proceeds were realized to reimburse Highway Trust Fund expenditures for prior years in the amount of $300 million dollars in September 2004. These bonds constitute the remaining portion of the $950 million highway bond authorization approved by the voters in November 1996 (Note: $250 million of such bonds were issued in 1997 and $400 million of such bonds were issued in 2003). Debt service on the bonds for 2004-2005 fiscal year was $69 million.

Enterprise Funds

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

Unemployment Compensation Fund

The net assets of the Unemployment Compensation Fund increased from $20.1 million at June 30, 2004 to $258.5 million at June 30, 2005, reversing the previous multi-year trend of declining net assets. The growth in net assets is explained, in part, by the 20% surcharge on unemployment contributions that became effective January 1, 2005, as required by State statute. The surcharge was assessed because of the fund's low reserves in prior years. Operating income (excess of operating revenues over operating expenses) was $244.3 million this year versus an operating loss of $509.6 million in 2004. Unemployment benefit expenses decreased 41.1% in fiscal year 2005 to $818.2 million. This decline is explained by the elimination of federal funding for extended unemployment benefits and by a decrease in the unemployment rate. The Temporary Extended Unemployment Compensation Program, which was enacted by the U.S. Congress in March 2002, ended during the 2004 fiscal year because of the decrease in the State's average unemployment rate. North Carolina's seasonally adjusted unemployment rate was 5.3% in June 2005 compared to 5.5% in June 2004 and 6.6% in June 2003. The 2004-05 fiscal year was the first year since the 2002 recession where unemployment contributions exceeded unemployment benefit expenses.

Also, at June 30, 2005, the short-term debt balance was $113.7 million compared to $251.8 million for the previous year-end. To ensure timely payment of unemployment benefits, the State received repayable advances from its Federal Unemployment Account and issued tax anticipation notes (see Note 6 to the financial statements). The State estimated that it will save millions of dollars in interest payments by selling tax anticipation notes instead of borrowing exclusively from the federal government. For the 2005-06 fiscal year, the State plans to issue tax anticipation notes in the amount of $125 million. For comparison purposes, the State issued $269 million in tax anticipation notes for fiscal year 2004-05.

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

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by $68.1 million during the current fiscal year, which was a 10.6% increase from the prior fiscal year-end. Operating income was $10.3 million (excess of operating revenues over operating expenses). Net nonoperating revenues were $44.4 million, consisting primarily of federal capitalization grants and investment earnings. The $13.6 million transferred in from other governmental funds (i.e., special revenue funds) consisted of clean water bond proceeds and additional funds to meet a required federal match.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005, the State's investment in capital assets was $27.566 billion, which represents an increase of 7.49% from the previous fiscal year-end (see table below).

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 8,912,153	$ 8,300,655	$ 3,146	$ 3,113	$ 8,915,299	$ 8,303,768
Buildings	1,629,882	1,578,749	15,510	16,325	1,645,392	1,595,074
Machinery and equipment	519,359	560,935	1,807	1,955	521,166	562,890
Infrastructure:						
State highway system	14,247,319	13,284,267	—	—	14,247,319	13,284,267
Other infrastructure	77,651	77,091	30,802	9,246	108,453	86,337
Intangible assets	106,038	106,506	1,569	—	107,607	106,506
Art, literature, and other artifacts	47,999	46,193	—	—	47,999	46,193
Construction in progress	1,971,206	1,634,928	1,811	24,534	1,973,017	1,659,462
Total	$ 27,511,607	$ 25,589,324	$ 54,645	$ 55,173	$ 27,566,252	$ 25,644,497
Total percent change between fiscal years 2004 and 2005	7.51 %		(0.96)%		7.49 %	

This year's major capital asset additions were for highway construction ($1.5 billion), highway land improvements ($556 million) and the acquisition/construction of correctional facilities ($167 million).

The largest component of capital assets is the State's highway system and related right-of-ways. The State has an approximately 78,844-mile highway system, making it the second largest state-maintained highway system in the nation. The system continues to increase as roads are widened and new roads and bridges are constructed.

The 2002-2003 Session of the General Assembly authorized the issuance of up to $300 million of special indebtedness to finance the repair and renovation of state facilities and related infrastructure that are supported by the State's General Fund. Of the $300 million, approximately $157 million will be allocated to the University of North Carolina System (component unit). Each of the sixteen constituent institutions of the UNC System will receive a portion of the proceeds for repairs and renovations. The remaining $143 million of the proceeds will be used to make repairs and renovations to various state facilities located throughout North Carolina. At year-end, the authorized but unissued repair and renovation debt was $175 million. In addition, the most recent session of the General Assembly (2005-2006 Session) directed the transfer on June 30, 2005, of $125 million from the unrestricted credit balance of the General Fund in fiscal year 2005 to the Repairs and Renovations Reserve Account, to be applied to the repair and renovation of state and university facilities.

In November 2004, the N.C Infrastructure Finance Corporation (Corporation), a blended component unit of the State, used the proceeds of lease-purchase revenue bonds to acquire two correctional facilities at a total cost of $51.4 million. Also, during the fiscal year, the Corporation issued $188.39 million in certificates of participation to construct and equip a close security correctional facility and to construct a new state psychiatric hospital facility. The Department of Correction is undertaking construction initiatives to address a cell shortfall and to allow for the implementation of sentencing reform. The State's correctional facility population has more than doubled since 1980 to approximately 37,000 inmates. The rapid growth in inmates is attributable to increases in the State's population, increases in length of stay in correctional facilities, and changes in criminal laws.

As further detailed in Note 20(F) to the financial statements, the State has commitments of $1.98 billion for the construction of highway infrastructure, which are expected to be financed by gasoline tax collections and federal funds. Other commitments for the construction and improvement of state government facilities totaled $575 million, which are expected to be financed primarily by debt proceeds (certificates of participation), state appropriations, and federal funds.

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

Long-term Debt

At year-end, the State had total long-term debt outstanding of $6.483 billion, an increase of 17.10% from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	$ 5,698,535	$ 4,982,860	$ —	$ —	$ 5,698,535	$ 4,982,860
Revenue bonds	265,045	218,405	9,070	9,325	274,115	227,730
Certificates of participation	475,170	301,165	—	—	475,170	301,165
Notes payable	34,007	25,008	1,569	—	35,576	25,008
Total	$ 6,472,757	$ 5,527,438	$ 10,639	$ 9,325	$ 6,483,396	$ 5,536,763
Total percent change between fiscal years 2004 and 2005	17.10 %		14.09 %		17.10 %	

During the 2004-05 fiscal year, the State issued $1.0215 billion in general obligations bonds (excluding refunding issues), $53.64 million in lease-purchase revenue bonds, and $188.39 million in certificates of participation (COPs). The new general obligation debt consisted of $705.5 million in public improvement bonds (consolidation of clean water bonds and higher education bonds), $300 million in highway bonds, and $16 million in natural gas bonds. The proceeds of the lease-purchase revenue bonds were used to acquire correctional facilities in Avery County and Pamlico County and will also be used to pay the cost of design and construction drawings for up to thirteen youth development centers. The proceeds of the COPs will be used to construct and equip a close security correctional facility in Columbus County, to construct a new State psychiatric hospital facility, and to finance higher education and other capital projects.

The State refinanced $986.9 million of its existing debt in fiscal year 2005 to improve cash flow and to take advantage of lower interest rates. By refinancing the debt, the State will reduce its future debt service payments by approximately $47 million over the next thirteen years.

The State's general obligation bonds are secured by a pledge of the faith, credit, and taxing power of the State. The revenue bonds issued by the State are secured solely by specified revenue sources. The certificates of participation (COPs) and lease-purchase revenue bonds issued by the N.C. Infrastructure Finance Corporation, a blended component unit of the State, are secured by lease and installment payments made by the State, and in the event of default, by a security interest in the leased facilities pursuant to a leasehold deed of trust (as applicable). The COPs issued for repair and renovation projects are not secured by a lien upon or security interest in the projects or any other property of the State.

All payments of the State for the COPs and the lease-purchase revenue bonds are subject to appropriation by the General Assembly. If the state defaulted on its repayments, no deficiency judgment could be rendered against the State, but the state property that serves as security could be disposed of to generate funds to satisfy the debt. Failure to repay the debt would have negative consequences for the State's credit rating. Article 9 of Chapter 142 of the General Statutes prohibits the issuance of special indebtedness (e.g.., COPs and lease-purchase revenue bonds) except for projects specifically authorized by the General Assembly. The use of alternative financing methods provides financing flexibility to the State and permits the State to take advantage of changing financial and economic environments.

Higher Education Authorization

The 1999-2000 Session of the General Assembly authorized the issuance of up to $3.1 billion of higher education improvement bonds, which were subsequently approved by the voters of the State. The $3.1 billion bond authorization represents the largest debt authorization in the State's history. The proceeds of these general obligation bonds will be used solely to construct new buildings and to renovate and modernize existing buildings on the State's 58 community college and 16 University of North Carolina campuses. These improvements are needed to meet enrollment demands and to ensure that the State's college and university buildings meet modern code requirements and are equipped to prepare graduates for twenty-first century jobs. The bond legislation passed by the General Assembly specifies the amount of bond funding that will flow to each community college and university campus. At year-end, the authorized but unissued higher education bonds were $703.5 million.

Recent Legislation

The most recent session of the General Assembly (2005-06 Session) authorized the Department of Transportation to issue "GARVEE" bonds or other eligible debt financing instruments to finance federal-aid highway projects. These bonds are Grant Anticipation Revenue Vehicles, authorized by federal law, that permit states to use anticipated future federal highway funds to finance highway project construction. According to the Federal Highway Administration, candidate projects for GARVEE financing are typically larger projects that have the following characteristics:

- They are large enough to merit borrowing rather than pay-as-you-go grant funding, with the costs of delay outweighing the cost of financing.
- They do not have access to a revenue stream (such as local taxes or tolls) and other forms of repayment (such as state appropriations) are not feasible.
- The sponsors (generally state DOTs) are willing to reserve a portion of future year federal aid highway funds to satisfy debt service requirements.

Total debt would be constrained by the amount of federal aid authorized in the prior federal fiscal year, approximately $950 million for federal fiscal year 2004, the last year for which data is available. More than a dozen other states are already using this type of financing, which Congress authorized in 1995.

Debt Affordability Advisory Committee

During the 2003-04 Session, the General Assembly created a Debt Affordability Advisory Committee (Committee) to annually advise the Governor and the General Assembly on the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

In February 2005, the State Treasurer completed the most recent Debt Affordability Study for North Carolina. It provides a methodology for measuring, monitoring, and managing the State's debt capacity. The study evaluated the State's current and projected debt burden using indicators such as tax-supported debt to personal income, debt per capita, debt service to tax revenue, and rapidity of principal repayment ratios. In addition, the report includes several recommendations based on the results of the study. Highway debt and non-tax supported special indebtedness authorized by the 2004 General Assembly were excluded from the study. Also, excluded from this study were the short-term tax anticipation notes issued for unemployment tax benefits (see Note 6 to the financial statements).

According to the report, all of the State's debt ratios are below median levels for all fifty states, as compiled by Moody's Investors Service, and for a peer group of seven states rated triple AAA by all three credit rating agencies. Thus, the study concludes that the State's debt is considered low and is manageable at the current level. However, due to the projected issuance of $2.1 billion of tax-supported debt over the next three years (67 percent for higher education purposes), all of the State's debt ratios are expected to increase over this period. The State Treasurer noted in the report that credit rating agencies consider a debt affordability study as a positive factor when evaluating issuers and assigning credit ratings.

Credit Ratings

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. Credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay.

The State's general obligation bonds are rated "AAA" by Fitch Ratings, "Aa1" with a positive outlook by Moody's Investors Service (Moody's) and "AAA" with a stable outlook by Standard & Poor's Ratings Services. All three agencies base their prime ratings on the State's strong, diverse economic base, its sound financial management, and low debt levels.

In August 2002, Moody's downgraded the State's credit rating for general obligation debt from "AAA" to "Aa1", representing the first time since 1960 that North Carolina had less than a "AAA" rating. While Moody's praised the strength of executive powers available to insure a balanced budget, it advised that the primary reasons for the downgrade were the State's continued budget pressure, reliance on non-recurring revenues, and weakened balance sheet. Also, Moody's commented that the task of restoring structural budget balance and rebuilding reserves faces political and economic obstacles. In September 2004, Moody's revised the State's outlook from stable to positive and noted the following:

> *"This rating reflects the State's slowly stabilizing economy, its improving tax revenues, its conservative debt policy, and its effective financial management. While general fund balances remain negative, flexible cash reserves outside the general fund are ample, and pension funding is exceptionally strong. Moody's expects that the state will continue to take actions to restore structural balance and rebuild reserves."*

The COPs and lease-purchase revenue bonds issued by the North Carolina Infrastructure Finance Corporation are rated "AA+" by Standard & Poor's, "AA" by Fitch, and "Aa2" by Moody's.

Limitations on Debt

The Constitution of North Carolina (Article 5, Section 3) imposes limitations upon the increase of certain state debt. It 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 the following purposes:

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

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

Next Year's Budget and Rates

The economy-based revenue growth estimate for 2005-06 was lowered from the 5.4% rate used as part of the Governor's proposed budget to 4.8% in the enacted budget. The primary reason for reducing baseline revenue growth is that prolonged exposure to higher energy prices and interest rate hikes by the Federal Reserve has already led to what economists call a "mid-decade slowdown".

The budget continues the current 4.5% state sales tax rate and 8.25% income tax bracket for two additional years (see 2004-05 General Fund Budgetary Highlights section). It includes changes to simplify and modernize the sales tax in order to comply with the Streamlined Sales Tax Agreement and to equalize rates on consumption. The budget also includes a 25 cent per pack increase in the cigarette tax effective September 1, 2005 and an additional 5 cent increase effective July 1, 2006. These adopted changes total $628 million for the 2005-06 fiscal year. The fiscal year 2005-06 budget is also supported by overcollections and reversions from fiscal year 2004-05 that factor into the beginning General Fund unreserved fund balance of $478.509 million. The 2005-06 budget calls for using $365.1 million of beginning availability, with an estimated ending unreserved fund balance of $113.387 million at June 30, 2006.

Conditions Expected to Impact Future Operations

Demographic Factors: The Baby Boomers

The process of retirement for the demographic cohort known as the "Baby Boomers" will have tremendous economic, social, and political impact on North Carolina. A critical area in which the "Boomer" retirement will be significantly consequential is the cost to the State of providing retirement benefits.

- The first year of the eighteen (18) year boomer cohort has just reached the average age of retirement in the state system for 2003, which is aged 58 ½. **Impact: the first of the Boomer cohort is on the cusp of retirement, marking the beginning of boomer retirement from the North Carolina public sector.**
- The total number of retirees in the North Carolina Teachers' and State Employees' Retirement System will increase 135% through 2022 (the total increase for both the State and the Local government systems is 141%). **Impact: the cost to the State of providing retirement benefits will increase.** (Note: Increasing costs are not driven by the cost of providing an actual pension since employees and employers fund the pension over the employee's service career. The significant increase in cost will come from providing Cost of Living Adjustments (COLAs) for a significantly larger retiree pool.)

Retiree Health Care

The Governmental Accounting Standards Board (GASB) reporting guidelines that will require disclosure of the State's liabilities for retiree health care costs (i.e., GASB Statements No. 43 and 45) are one of the State's largest looming fiscal items. The Retirement System facilitates the benefit by making the deduction for the State Health Plan from retirees' pension checks. The Retirement System is also the front line organization for retirees who want to voice their concerns about changes, or potential changes, to benefits. Ultimately, the provision of health care for the State's public sector retirees is the responsibility of the State Health Plan. The unfunded actuarial liability for retiree health care is substantial because of the State's policy of funding these benefits on a pay-as-you-go basis.

In preparation for the new GASB standards on other postemployment benfits, the North Carolina General Assembly enacted legislation in 2004 establishing a Retiree Health Benefit Fund. The State's contributions to this fund are irrevocable, and the assets of the fund are not subject to the claims of the State's creditors. More detailed information about the State's obligations for Retiree Health Care is presented in the Letter of Transmittal.

Escheat Fund

Legislation passed in 2005 authorized the State Treasurer to diversify the investments of the Escheat Fund (a special revenue fund). Previously, the Fund was limited to participating in the Long Term Investment Portfolio. The State Constitution mandates that proceeds of the Escheat Fund shall be used to aid needy and worthy North Carolina students enrolled in public institutions of higher education. The continuing demand on resources at the universities and community colleges has necessitated regular tuition increases. The establishment of a modern investment allocation strategy aimed at increasing returns was identified as a way to enhance the Fund's constitutionally provided purpose. Under the new provisions, the State Treasurer is authorized to invest up to 20% of the assets of the Escheat Fund in private equity investments.

North Carolina State Lottery

On August 30, 2005 the General Assembly passed House Bill 1023, North Carolina State Lottery Act. North Carolina becomes the last state on the east coast to approve a lottery. In accordance with House Bill 1023 and Senate Bill 22, 2005 Appropriations Act (*with elements of House Bill 1023 rewritten*), the net proceeds of the Lottery will be used to further the goal of providing enhanced educational opportunities, to support public school construction, and to fund college and university scholarships.

The Lottery legislation directs that 50% of the net proceeds be dedicated to pre-kindergarten and class-size reduction programs that have been implemented over the last five years. To this point, these programs have been funded by the General Fund. The remaining net proceeds will be distributed to the Public School Building Capital Fund (40%) and the State Education Assistance Authority (10%). More detailed information about the new education lottery is presented in the Letter of Transmittal.

Requests for Information

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

Basic Financial Statements

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2005 *Exhibit A-1*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 3,521,256	$ 288,222	$ 3,809,478	$ 2,861,465
Investments (Note 3)	1,601,593	44,679	1,646,272	2,144,508
Securities lending collateral (Note 3)	3,957,210	215,140	4,172,350	—
Receivables, net (Note 4)	2,239,883	396,854	2,636,737	728,808
Due from component units (Note 17)	14,350	—	14,350	61,258
Due from primary government (Note 17)	—	—	—	347,904
Internal balances	(79)	79	—	—
Inventories	164,647	575	165,222	73,242
Prepaid items	15,362	1,730	17,092	13,533
Advances to component units (Note 17)	21,800	—	21,800	—
Notes receivable, net (Note 4)	321,186	492,103	813,289	3,309,361
Endowment investments (Note 3)	58,080	—	58,080	2,010,591
Investment in joint venture	—	—	—	8,319
Deferred charges	—	112	112	21,541
Securities held in trust	43,089	—	43,089	—
Pension assets (Note 11)	407	—	407	—
Capital assets-nondepreciable (Note 5)	10,931,358	4,957	10,936,315	1,813,183
Capital assets-depreciable, net (Note 5)	16,580,249	49,688	16,629,937	5,913,455
Total Assets	39,470,391	1,494,139	40,964,530	19,307,168
Liabilities				
Accounts payable and accrued liabilities	1,326,715	26,085	1,352,800	555,480
Medical claims payable	928,501	—	928,501	3,975
Unemployment benefits payable	—	19,728	19,728	—
Tax refunds payable	1,279,117	—	1,279,117	—
Obligations under securities lending	3,957,210	215,140	4,172,350	—
Interest payable	87,523	34	87,557	34,411
Short-term debt (Note 6)	—	113,690	113,690	143,141
Due to component units (Note 17)	347,904	—	347,904	61,258
Due to primary government (Note 17)	—	—	—	14,350
Unearned revenue	517,941	14,644	532,585	122,385
Advance from primary government (Note 17)	—	—	—	21,800
Obligations under reverse repurchase agreements	—	—	—	9,992
Deposits payable	60	77	137	10,668
Funds held for others	84,987	—	84,987	584,013
Long-term liabilities (Note 7):				
Due within one year	405,364	572	405,936	238,292
Due in more than one year	6,626,027	12,559	6,638,586	5,417,951
Total Liabilities	15,561,349	402,529	15,963,878	7,217,716
Net Assets				
Invested in capital assets, net of related debt	26,434,617	44,007	26,478,624	5,809,196
Restricted for:				
Nonexpendable:				
Environment and natural resources	55,152	—	55,152	—
Higher education	553	—	553	1,146,142
Health and human services	200	—	200	—
Expendable:				
Primary and secondary education	155,679	—	155,679	—
Higher education	393,406	—	393,406	2,456,903
Health and human services	173,539	—	173,539	762
Economic development	26,522	—	26,522	345,980
Environment and natural resources	38,126	—	38,126	—
Public safety, corrections, and regulation	67,640	—	67,640	—
Transportation	359,907	—	359,907	—
Unemployment compensation	—	258,455	258,455	—
EPA revolving loan	—	708,496	708,496	—
Other purposes	43,673	3,664	47,337	24
Unrestricted	(3,839,972)	76,988	(3,762,984)	2,330,445
Total Net Assets	$ 23,909,042	$ 1,091,610	$ 25,000,652	$ 12,089,452

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

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STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2005
(Dollars in Thousands)

		Program Revenues			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue**
Primary Government:					
Governmental Activities:					
General government	$ 917,209	$ 202,514	$ 157,430	$ 2,462	$ (554,803)
Primary and secondary education	7,699,208	20,551	1,084,269	—	(6,594,388)
Higher education	3,576,384	775	22,073	—	(3,553,536)
Health and human services	13,375,794	285,641	9,170,857	11	(3,919,285)
Economic development	625,561	33,979	381,587	—	(209,995)
Environment and natural resources	570,241	147,124	88,814	53,976	(280,327)
Public safety, corrections, and regulation	2,125,385	378,059	190,334	13,957	(1,543,035)
Transportation	1,795,490	588,357	273,164	939,869	5,900
Agriculture	81,628	15,482	12,336	1,176	(52,634)
Interest on long-term debt	249,433	—	—	—	(249,433)
Total Governmental Activities	31,016,333	1,672,482	11,380,864	1,011,451	(16,951,536)
Business-type Activities:					
Unemployment Compensation	824,934	1,062,549	1,115	—	238,730
EPA Revolving Loan	7,170	14,078	47,746	—	54,654
Other business-type activities	60,066	69,349	5,899	452	15,634
Total Business-type Activities	892,170	1,145,976	54,760	452	309,018
Total Primary Government	$ 31,908,503	$ 2,818,458	$ 11,435,624	$ 1,011,903	$ (16,642,518)
Component Units:					
The Golden LEAF, Inc.	$ 24,471	$ 5	$ 36,842	$ —	$ 12,376
University of North Carolina System	6,112,010	3,645,788	803,976	25,362	(1,636,884)
Community Colleges	1,424,287	240,812	445,550	94,279	(643,646)
N.C. Housing Finance Agency	224,256	224,960	64,951	—	65,655
State Education Assistance Authority	175,959	91,433	31,592	—	(52,934)
Other component units	194,728	49,938	14,873	300	(129,617)
Total Component Units	$ 8,155,711	$ 4,252,936	$ 1,397,784	$ 119,941	$ (2,385,050)

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

STATEMENT OF ACTIVITIES (continued)

For the Fiscal Year Ended June 30, 2005 *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (expense) revenue	$ (16,951,536)	$ 309,018	$ (16,642,518)	$ (2,385,050)
General Revenues:				
Taxes				
Individual income tax	8,244,275	—	8,244,275	—
Corporate income tax	1,143,458	—	1,143,458	—
Sales and use tax	4,621,098	—	4,621,098	—
Gasoline tax	1,354,699	—	1,354,699	—
Franchise tax	613,033	—	613,033	—
Highway use tax	580,118	—	580,118	—
Insurance tax	442,228	—	442,228	—
Beverage tax	220,782	—	220,782	—
Inheritance tax	135,107	—	135,107	—
Other taxes	306,991	—	306,991	—
Tobacco settlement	148,800	—	148,800	—
Unrestricted investment earnings	78,546	—	78,546	—
State operating aid	—	—	—	2,852,132
State capital aid	—	—	—	863,638
Miscellaneous	53,488	79	53,567	4,394
Contributions to permanent funds	2,288	—	2,288	—
Contributions to endowments	—	—	—	95,557
Transfers	(11,620)	11,620	—	—
Total general revenues, contributions and transfers	17,933,291	11,699	17,944,990	3,815,721
Change in net assets	981,755	320,717	1,302,472	1,430,671
Net assets — July 1, as restated (Note 22)	22,927,287	770,893	23,698,180	10,658,781
Net assets — June 30	$ 23,909,042	$ 1,091,610	$ 25,000,652	$ 12,089,452

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2005 — *Exhibit B-1*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	$ 1,775,132	$ 405,973	$ 147,578	$ 1,135,854	$ 3,464,537
Investments (Note 3)	2,093	—	—	1,578,018	1,580,111
Securities lending collateral (Note 3)	2,689,730	390,197	67,400	783,906	3,931,233
Receivables, net: (Note 4)					
Taxes receivable	849,478	92,651	32,575	4,970	979,674
Accounts receivable	289,418	804	414	29,787	320,423
Intergovernmental receivable	831,762	53,651	505	6,828	892,746
Interest receivable	9,682	412	640	5,875	16,609
Other receivables	—	13,017	—	—	13,017
Due from fiduciary funds (Note 4)	1	—	—	—	1
Due from other funds (Note 9)	74	85,551	264	9,618	95,507
Due from component units (Note 17)	5,939	—	—	7,279	13,218
Inventories	59,987	71,405	—	33,065	164,457
Prepaid items	—	—	—	170	170
Advances to other funds (Note 9)	—	—	800	—	800
Advances to component units (Note 17)	—	—	58	21,742	21,800
Notes receivable, net (Note 4)	5,024	1,051	113	314,998	321,186
Securities held in trust	603	4,261	—	38,225	43,089
Endowment investments (Note 3)	—	—	—	58,080	58,080
Total Assets	$ 6,518,923	$ 1,118,973	$ 250,347	$ 4,028,415	$ 11,916,658
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 95,702	$ 157,957	$ 57,449	$ 92,615	$ 403,723
Accrued payroll	6,300	35,623	—	927	42,850
Intergovernmental payable	653,098	94,383	44,648	8,379	800,508
Claims payable	—	—	—	29,564	29,564
Medical claims payable	928,501	—	—	—	928,501
Tax refunds payable	1,279,117	—	—	—	1,279,117
Obligations under securities lending	2,689,730	390,197	67,400	783,906	3,931,233
Interest payable	2,011	—	—	—	2,011
Due to fiduciary funds (Note 9)	36,160	—	—	47	36,207
Due to other funds (Note 9)	18,903	5,339	82,113	3,181	109,536
Due to component units (Note 17)	50,823	—	—	297,081	347,904
Deferred revenue	836,525	19,339	1,641	11,580	869,085
Advance from other funds (Note 9)	—	800	—	—	800
Deposits payable	51	—	—	9	60
Funds held for others	811	45,904	5	38,267	84,987
Total Liabilities	6,597,732	749,542	253,256	1,265,556	8,866,086
Fund Balances:					
Reserved (Note 10)	172,633	53,446	971	857,549	1,084,599
Unreserved, reported in:					
General Fund	(251,442)	—	—	—	(251,442)
Special Revenue Funds	—	315,985	(3,880)	1,858,428	2,170,533
Capital Projects Funds	—	—	—	44,237	44,237
Permanent Funds	—	—	—	2,645	2,645
Total Fund Balance	(78,809)	369,431	(2,909)	2,762,859	3,050,572
Total Liabilities and Fund Balances	$ 6,518,923	$ 1,118,973	$ 250,347	$ 4,028,415	$ 11,916,658

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

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

June 30, 2005 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 3,050,572
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
- **Capital assets** used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds)	$ 34,251,188	
Less: Accumulated depreciation (excluding internal service funds)	(6,832,117)	
Net capital assets		27,419,071
- **Some assets**, such as receivables, are not available soon enough to pay for current-period expenditures and thus, are offset by deferred revenue in the governmental funds.		354,265
- **Pension assets**, resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 11).		407
- **Long-term debt instruments**, such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 7). Also, unamortized debt premiums, discounts, and losses on refundings are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable	(5,698,535)	
Lease-purchase revenue bonds payable	(265,045)	
Certificates of participation payable	(475,170)	
Unamortized debt premiums (to be amortized as interest expense)	(339,004)	
Less: Unamortized debt discounts (to be amortized as interest expense)	1,175	
Less: Unamortized loss on refunding (to be amortized as interest expense)	119,653	
Notes payable	(34,007)	
Capital leases payable	(330)	
Net long-term debt		(6,691,263)
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 7 as applicable) consist of:		
Accrued interest payable	(85,512)	
Compensated absences (excluding internal service funds)	(323,855)	
Obligations for workers compensation	(5,500)	
Deferred death benefit payable	(400)	
Cost settlement payable	(5,000)	
Net pension obligation	(2,044)	
Total other liabilities		(422,311)
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (see Exhibit B-3).		198,301
Total net assets - governmental activities (see Exhibit A-1)		$ 23,909,042

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

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

For the Fiscal Year Ended June 30, 2005 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax	$ 8,206,026	$ —	$ —	$ 1,604	$ 8,207,630
Corporate income tax	1,065,374	—	—	78,356	1,143,730
Sales and use tax	4,587,542	—	—	25,213	4,612,755
Gasoline tax	—	972,559	324,269	60,281	1,357,109
Franchise tax	613,093	—	—	—	613,093
Highway use tax	—	—	580,118	—	580,118
Insurance tax	431,664	—	—	10,564	442,228
Beverage tax	220,782	—	—	—	220,782
Inheritance tax	134,419	—	—	—	134,419
Other taxes	181,357	—	—	125,509	306,866
Federal funds	9,755,067	1,134,639	—	397,748	11,287,454
Local funds	731,368	15,136	1,016	19,547	767,067
Investment earnings	132,685	35,696	11,769	112,256	292,406
Interest earnings on loans	—	5	—	5,659	5,664
Sales and services	85,760	1,022	—	149,112	235,894
Rental and lease of property	11,376	22,559	1,101	3,549	38,585
Fees, licenses, and fines	462,736	459,447	99,207	197,041	1,218,431
Tobacco settlement	148,641	—	—	—	148,641
Contributions, gifts, and grants	34,480	3,124	97	70,749	108,450
Funds escheated	—	—	—	49,684	49,684
Miscellaneous	110,365	18,614	2,232	15,318	146,529
Total revenues	26,912,735	2,662,801	1,019,809	1,322,190	31,917,535
Expenditures:					
Current:					
General government	687,040	—	—	67,135	754,175
Primary and secondary education	7,483,347	—	—	229,918	7,713,265
Higher education	2,761,825	—	—	814,941	3,576,766
Health and human services	13,291,260	—	—	85,104	13,376,364
Economic development	230,851	—	—	391,149	622,000
Environment and natural resources	234,017	—	—	345,836	579,853
Public safety, corrections, and regulation	1,771,095	—	—	352,742	2,123,837
Transportation	—	2,527,858	983,303	—	3,511,161
Agriculture	75,290	—	—	7,218	82,508
Capital outlay	—	—	—	313,932	313,932
Debt service:					
Principal retirement	266,178	63	36,965	612	303,818
Interest and fees	205,324	353	32,071	4,188	241,936
Debt issuance costs	2,889	—	758	3,807	7,454
Total expenditures	27,009,116	2,528,274	1,053,097	2,616,582	33,207,069
Excess revenues over (under) expenditures	(96,381)	134,527	(33,288)	(1,294,392)	(1,289,534)
Other Financing Sources (Uses):					
Bonds issued	—	—	300,000	775,140	1,075,140
Certificates of participation issued	—	—	—	188,385	188,385
Refunding bonds issued	959,665	—	—	—	959,665
Other debt issued	12,686	—	—	—	12,686
Premium on debt issued	101,047	—	24,278	84,791	210,116
Payment to refunded bond escrow agent	(1,059,663)	—	—	—	(1,059,663)
Capital leases	212	—	—	—	212
Sale of capital assets	1,819	7,725	560	4,570	14,674
Transfers in (Note 9)	738,842	222,160	—	793,446	1,754,448
Transfers out (Note 9)	(470,433)	(225,589)	(560,550)	(504,229)	(1,760,801)
Total other financing sources (uses)	284,175	4,296	(235,712)	1,342,103	1,394,862
Net change in fund balances	187,794	138,823	(269,000)	47,711	105,328
Fund balances — July 1, as restated (Note 22)	(271,901)	231,189	266,091	2,710,911	2,936,290
Increase (decrease) in reserve for related assets	5,298	(581)	—	4,237	8,954
Fund balances — June 30	$ (78,809)	$ 369,431	$ (2,909)	$ 2,762,859	$ 3,050,572

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

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

For the Fiscal Year Ended June 30, 2005 — *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ 105,328
Amounts reported for governmental activities in the Statement of Activities are different because:		
- **Capital outlays** are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	$ 2,535,265	
Less: Depreciation expense (excluding internal service funds)	(527,794)	
Net capital outlay adjustment		2,007,471
- **Proceeds from the sale of capital assets** increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.		(86,395)
- **Donations of capital assets** do not appear in the governmental funds because they are not financial resources, but increase net assets in the Statement of Activities.		268
- **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds and similar debt issued	(1,276,211)	
Refunding bonds issued	(959,665)	
Capital lease financings	(212)	
Premiums on debt issued	(209,324)	
Principal repayments:		
Bonds, notes, and similar debt	303,632	
Capital leases	186	
Payments to escrow agent for refundings	1,059,663	
Net debt adjustments		(1,081,931)
- **Some revenues** in the Statement of Activities do not provide current financial resources and, therefore, are deferred in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		41,619
- **Some expenses** reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest	(29,139)	
Compensated absences (excluding internal service funds)	(9,193)	
Workers compensation	695	
Arbitrage rebate	43	
Deferred death benefit	(130)	
Cost settlement	2,500	
Net pension obligation	271	
Amortization of deferred amounts	17,522	
Net expense accruals		(17,431)
- **Inventories** of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.		8,954
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).		3,872
Change in net assets - governmental activities (see Exhibit A-2)		$ 981,755

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005 — *Exhibit B-3*

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds: Unemployment Compensation Fund	Business-type Activities — Enterprise Funds: EPA Revolving Loan Fund	Business-type Activities — Enterprise Funds: Other Enterprise Funds	Business-type Activities — Enterprise Funds: Total Enterprise Funds	Governmental Activities — Internal Service Funds
Assets					
Current Assets:					
Cash and cash equivalents (Note 3)	$ 25,232	$ 211,033	$ 49,597	$ 285,862	$ 56,719
Investments (Note 3)	—	2,586	38,612	41,198	21,482
Securities lending collateral (Note 3)	7,638	165,355	42,147	215,140	25,977
Receivables: (Note 4)					
Accounts receivable, net	26,007	—	3,985	29,992	17,236
Intergovernmental receivables	—	22	—	22	—
Interest receivable	24	3,163	49	3,236	47
Premiums receivable	—	—	1,558	1,558	126
Contributions receivable, net	362,045	—	1	362,046	—
Notes receivable, net (Note 4)	—	29,412	—	29,412	—
Due from fiduciary funds (Note 4)	—	—	—	—	4
Due from other funds (Note 9)	122	—	1	123	15,520
Due from component units (Note 17)	—	—	—	—	1,132
Inventories	—	—	575	575	190
Prepaid items	—	—	1,730	1,730	15,192
Total current assets	421,068	411,571	138,255	970,894	153,625
Noncurrent Assets:					
Restricted/designated cash and cash equivalents (Note 3)	—	—	2,360	2,360	—
Investments (Note 3)	—	—	217	217	—
Restricted investments (Note 3)	—	—	3,264	3,264	—
Notes receivable, net (Note 4)	—	462,691	—	462,691	—
Deferred charges	—	—	112	112	—
Capital assets-nondepreciable (Note 5)	—	—	4,957	4,957	4,305
Capital assets-depreciable, net (Note 5)	—	133	49,555	49,688	88,231
Total noncurrent assets	—	462,824	60,465	523,289	92,536
Total Assets	421,068	874,395	198,720	1,494,183	246,161
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	8,354	22	767	9,143	7,022
Accrued payroll	—	1	67	68	550
Intergovernmental payable	3,904	56	—	3,960	4,610
Claims payable	1,571	—	11,343	12,914	1,681
Unemployment benefits payable	19,728	—	—	19,728	—
Obligations under securities lending	7,638	165,355	42,147	215,140	25,977
Interest payable	—	—	34	34	—
Due to other funds (Note 9)	—	9	35	44	1,570
Unearned revenue	7,728	—	6,916	14,644	3,121
Deposits payable	—	—	77	77	—
Short-term debt (Note 6)	113,690	—	—	113,690	—
Notes Payable	—	—	112	112	—
Bonds payable - current	—	—	270	270	—
Compensated absences - current	—	24	166	190	290
Total current liabilities	162,613	165,467	61,934	390,014	44,821
Noncurrent Liabilities:					
Notes payable	—	—	1,457	1,457	—
Bonds payable, net	—	—	8,800	8,800	—
Compensated absences	—	299	2,003	2,302	3,039
Total noncurrent liabilities	—	299	12,260	12,559	3,039
Total Liabilities	162,613	165,766	74,194	402,573	47,860
Net Assets					
Invested in capital assets, net of related debt	—	133	43,874	44,007	92,536
Restricted for:					
Capital outlay	—	—	2,503	2,503	—
Other purposes	—	—	1,161	1,161	—
Unrestricted	258,455	708,496	76,988	1,043,939	105,765
Total Net Assets	$ 258,455	$ 708,629	$ 124,526	$ 1,091,610	$ 198,301

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

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

For the Fiscal Year Ended June 30, 2005 *Exhibit B-4*

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues:					
Employer unemployment contributions	$ 1,033,552	$ —	$ —	$ 1,033,552	$ —
Federal funds	28,997	—	—	28,997	—
Sales and services	—	1,587	1,037	2,624	234,163
Sales and services used as security for bonds, net	—	—	3,531	3,531	—
Interest earnings on loans	—	12,491	—	12,491	—
Rental and lease earnings	—	—	5,053	5,053	—
Fees, licenses and fines	—	—	43,580	43,580	20
Insurance premiums	—	—	15,993	15,993	16,927
Miscellaneous	—	—	155	155	444
Total operating revenues	1,062,549	14,078	69,349	1,145,976	251,554
Operating Expenses:					
Personal services	—	2,904	24,229	27,133	45,661
Supplies and materials	—	12	1,276	1,288	12,034
Services	—	491	15,008	15,499	102,468
Cost of goods sold	—	—	407	407	1,727
Depreciation/amortization	—	22	2,937	2,959	27,991
Claims	—	—	8,416	8,416	1,451
Unemployment benefits	818,228	—	—	818,228	—
Insurance and bonding	—	—	3,515	3,515	12,190
Other	—	352	3,312	3,664	40,009
Total operating expenses	818,228	3,781	59,100	881,109	243,531
Operating income (loss)	244,321	10,297	10,249	264,867	8,023
Nonoperating Revenues (Expenses):					
Noncapital grants	14	38,603	224	38,841	—
Noncapital gifts	—	—	202	202	—
Investment earnings	1,101	9,143	5,449	15,693	3,257
Interest and fees	(2,320)	—	(47)	(2,367)	—
Insurance recoveries	—	—	15	15	159
Gain (loss) on sale of equipment	—	—	32	32	(1,692)
Miscellaneous	(4,386)	(3,389)	(863)	(8,638)	(608)
Total nonoperating revenues (expenses)	(5,591)	44,357	5,012	43,778	1,116
Income (loss) before contributions and transfers	238,730	54,654	15,261	308,645	9,139
Capital contributions	—	—	452	452	—
Transfers in (Note 9)	—	13,599	3,402	17,001	629
Transfers out (Note 9)	(400)	(153)	(4,828)	(5,381)	(5,896)
Change in net assets	238,330	68,100	14,287	320,717	3,872
Net assets — July 1, as restated (Note 22)	20,125	640,529	110,239	770,893	194,429
Net assets — June 30	$ 258,455	$ 708,629	$ 124,526	$ 1,091,610	$ 198,301

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities:					
Receipts from customers	$ 943,824	$ 1,634	$ 66,492	$ 1,011,950	$ 47,667
Receipts from federal agencies	28,998	—	—	28,998	—
Receipts from other funds	—	—	541	541	204,765
Payments to suppliers	—	(500)	(21,792)	(22,292)	(150,256)
Payments to employees	—	(2,922)	(24,539)	(27,461)	(45,687)
Payments for benefits and claims	(819,479)	—	(10,808)	(830,287)	(497)
Payments to other funds	—	—	(256)	(256)	(9,330)
Other receipts (payments)	—	(310)	(1,635)	(1,945)	(4,531)
Net cash flows provided (used) by operating activities	153,343	(2,098)	8,003	159,248	42,131
Cash Provided From (Used For) Noncapital Financing Activities:					
Grant receipts (refunds)	(4,093)	38,616	224	34,747	—
Proceeds from short-term borrowing	749,746	—	—	749,746	—
Principal payments from short-term borrowing	(887,815)	—	—	(887,815)	—
Interest expense and issuance cost	(2,320)	—	—	(2,320)	—
Transfers from other funds	—	14,387	866	15,253	628
Transfers to other funds	(400)	(941)	(4,828)	(6,169)	(5,895)
Gifts	—	—	202	202	—
Total cash provided from (used for) noncapital financing activities	(144,882)	52,062	(3,536)	(96,356)	(5,267)
Cash Provided From (Used For) Capital Financing Activities:					
Acquisition and construction of capital assets	—	—	(501)	(501)	(34,978)
Proceeds from the sale of capital assets	—	—	79	79	3,046
Capital contributions	—	—	452	452	—
Principal paid on capital debt	—	—	(255)	(255)	—
Interest paid on capital debt	—	—	(415)	(415)	—
Payment to bond escrow agent	—	—	(42)	(42)	—
Insurance recoveries	—	—	15	15	159
Total cash provided from (used for) capital financing activities	—	—	(667)	(667)	(31,773)
Cash Provided From (Used For) Investment Activities:					
Proceeds from the sale/maturities of non-State Treasurer investments	—	—	3,152	3,152	—
Purchase of non-State Treasurer investments	—	—	(3,222)	(3,222)	—
Purchase into State Treasurer investment pool	—	(7,154)	—	(7,154)	—
Redemptions from State Treasurer investment pool	—	5,948	—	5,948	—
Loan issuances	—	(86,705)	—	(86,705)	—
Loan repayments — interest	—	11,895	—	11,895	—
Loan repayments — principal	—	29,822	—	29,822	—
Investment earnings	822	5,752	977	7,551	644
Total cash provided from (used for) investment activities	822	(40,442)	907	(38,713)	644
Net increase (decrease) in cash and cash equivalents	9,283	9,522	4,707	23,512	5,735
Cash and cash equivalents at July 1, as restated	15,949	201,511	47,250	264,710	50,984
Cash and cash equivalents at June 30	$ 25,232	$ 211,033	$ 51,957	$ 288,222	$ 56,719

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2005 *Exhibit B-5*

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Governmental Activities —
	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ 244,321	$ 10,297	$ 10,249	$ 264,867	$ 8,023
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	22	2,937	2,959	27,991
Interest earnings on loans classified as investing activity	—	(12,491)	—	(12,491)	—
Restatements and adjustments to cash	—	—	6	6	—
Nonoperating miscellaneous income (expense)	—	—	9	9	2
(Increases) decreases in assets:					
Receivables	(94,208)	46	(3,353)	(97,515)	(3,242)
Due from other funds	(31)	—	(1)	(32)	3,895
Due from fiduciary funds	—	—	—	—	(2)
Due from component units	—	—	—	—	(86)
Inventories	—	—	(44)	(44)	73
Prepaid items	—	—	115	115	(2,987)
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	4,248	45	(2,723)	1,570	7,426
Due to other funds	—	1	(16)	(15)	157
Unemployment benefits payable	(465)	—	—	(465)	—
Compensated absences	—	(18)	(276)	(294)	16
Unearned revenue	(522)	—	1,098	576	865
Deposits payable	—	—	2	2	—
Total cash provided from (used for) operations	$ 153,343	$ (2,098)	$ 8,003	$ 159,248	$ 42,131
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ —	$ 2,316	2,316	$ 1,289
Transferred assets	—	—	2,536	2,536	—
Change in construction in progress as a result of accrual of accounts payable	—	—	2	2	—
Assets acquired through the assumption of a liability	7,638	165,355	43,716	216,709	25,977
Change in fair value of investments	—	—	1,298	1,298	709

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2005 *Exhibit B-6*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents (Note 3)	$ 349,481	$ 39,937	$ 96,349	$ 2,876,703
Investments (Note 3):				
Annuity contracts	1,073,122	—	—	—
U.S. Government securities	—	—	2,087	—
State and municipal securities	—	—	110	—
Mutual funds	2,470,055	—	—	—
Certificates of deposit	—	—	62,689	467
State Treasurer investment pool	65,433,736	420,135	—	46,274
Securities lending collateral (Note 3)	12,299,195	340,133	591	1,891,929
Receivables:				
Taxes receivable	—	—	—	168,400
Accounts receivable	34,100	—	—	500
Interest receivable	1,424	3,071	2	1
Contributions receivable	107,800	—	—	—
Due from fiduciary funds (Note 9)	2,517	—	—	—
Due from other funds (Note 9)	25,713	—	—	10,494
Notes receivable	144,063	—	—	—
Inventories	—	—	—	301
Sureties	—	—	966,025	82,506
Capital assets-depreciable, net	17	—	—	—
Total Assets	81,941,223	803,276	1,127,853	5,077,575
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	9,875	—	—	486
Intergovernmental payables	—	—	—	582,419
Benefits payable	300,832	—	—	—
Medical claims payable	231,963	—	—	—
Obligations under securities lending	12,299,195	340,133	591	1,891,929
Due to fiduciary funds (Note 9)	2,517	—	—	—
Due to other funds (Note 9)	5	—	—	—
Deferred revenue	29,027	—	—	—
Deposits payable	—	—	—	1,590
Funds held for others	—	—	—	2,601,151
Compensated absences	42	—	—	—
Total Liabilities	12,873,456	340,133	591	5,077,575
Net Assets				
Held in trust for:				
Employees' pension and other benefits	69,067,767	—	—	—
Pool participants	—	463,143	—	—
Individuals, organizations and other governments	—	—	1,127,262	—
Total Net Assets	$ 69,067,767	$ 463,143	$ 1,127,262	$ —

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2005 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions:			
Contributions:			
Employer	$ 2,409,142	$ —	$ —
Members	1,475,534	—	—
Trustee deposits	—	—	138,438
Other contributions	18,229	—	—
Total contributions	3,902,905	—	138,438
Investment income:			
Investment earnings (loss)	6,621,737	21,638	2,331
Less investment expenses	(385,766)	(8,046)	(11)
Net investment income (loss)	6,235,971	13,592	2,320
Pool share transactions:			
Reinvestment of dividends	—	14,833	—
Net share purchases/(redemptions)	—	(68,585)	—
Net pool share transactions	—	(53,752)	—
Other additions:			
Fees, licenses and fines	4,696	—	—
Interest earnings on loans	7,002	—	—
Miscellaneous	1,789	—	—
Total other additions	13,487	—	—
Total additions	10,152,363	(40,160)	140,758
Deductions:			
Claims and benefits	4,935,672	—	—
Refund of contributions	153,436	—	—
Distributions paid and payable	—	13,592	—
Payments in accordance with trust arrangements	—	—	126,457
Administrative expenses	441,524	—	—
Other deductions	126	—	—
Total deductions	5,530,758	13,592	126,457
Change in net assets	4,621,605	(53,752)	14,301
Net assets — July 1, as restated (Note 22)	64,446,162	516,895	1,112,961
Net assets — June 30	$ 69,067,767	$ 463,143	$ 1,127,262

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

Blended Component Unit

The North Carolina Infrastructure Finance Corporation

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

Discretely Presented Component Units - Major

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

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

University of North Carolina System

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

Also included in the System are the financial data of the universities' significant fund-raising foundations (and similarly affiliated organizations). Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements. The foundations are private not-for-profit organizations that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The foundations' financial statement formats were modified to make them compatible with the universities' financial statement formats.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Community Colleges

There are currently fifty-eight community colleges located throughout the State of North Carolina. Each is a separate component unit of the reporting entity and is legally separate. The State does not appoint a voting majority of each community college board of trustees. However, the State is financially accountable for these institutions because the State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no single community college are 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 aggregated financial information for community colleges also includes the financial data of the institutions' significant fund-raising foundations. Although the community colleges do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective community colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific community colleges, the foundations are considered component units of the community colleges and are included in the community colleges' financial statements. The foundations are private not-for-profit organizations that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The foundations' financial statement formats were modified to make them compatible with the community colleges' financial statement formats.

The following are the State's fifty-eight community colleges:

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

North Carolina Housing Finance Agency

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

State Education Assistance Authority

The State Education Assistance Authority is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education beyond the high school level by attending public or private educational institutions. The Authority is governed by a seven-member board of directors, all of whom are appointed by the Governor. The State provides significant operating subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

NOTES TO THE FINANCIAL STATEMENTS

Discretely Presented Component Units - Other

North Carolina Phase II Tobacco Certification Entity, Inc.

The North Carolina Phase II Tobacco Certification Entity, Inc. (Entity) is a legally separate organization established to serve as the certification entity for the State of North Carolina for the National Tobacco Grower Settlement Trust. Under the settlement, tobacco companies agreed to create a trust fund for tobacco growers and quota holders in 14 grower states, including North Carolina. The Entity is governed by a fourteen-member board. Three members serve by virtue of their positions as state officials and nine members are appointed by either the Governor, President Pro Tempore of the Senate, or the Speaker of the House. The State has the ability to impose its will since appointed members may be removed without cause. The Tobacco Buyout Bill enacted in October 2004 ended the trust agreement that the Entity was formed to oversee. Management believes that it will take approximately two years to finalize any outstanding issues related to open payment years and to cease operations.

North Carolina Global TransPark Authority

The North Carolina Global TransPark Authority (formerly North Carolina Air Cargo Airport Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the twenty-member governing board, nineteen are voting members. Seven of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/ burden relationship exists between the State and the Authority. Also included in the Authority are the financial data of its blended component unit, the North Carolina Global TransPark Foundation (Foundation). The Authority appoints a majority of the Foundation's governing board and receives financial benefits from the Foundation.

North Carolina State Ports Authority

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

North Carolina Railroad Company

The North Carolina Railroad Company is a legally separate, for-profit corporation owned by the State for the purpose of promoting trade, industry, and transportation within the State of North Carolina and advancing the economic interests of the State. The Railroad is governed by a fourteen member board, all of whom are elected by shares held by the State. A financial benefit/burden relationship exists between the State and the Railroad. Also, the State is financially accountable since the State's intent in owning the Railroad's stock is to directly enhance its ability to provide governmental services.

North Carolina Agricultural Finance Authority

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

North Carolina Partnership for Children, Inc.

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

Regional Economic Development Commissions:

Northeastern North Carolina Regional Economic Development Commission

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

Southeastern North Carolina Regional Economic Development Commission

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

Western North Carolina Regional Economic Development Commission

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

North Carolina Turnpike Authority

The North Carolina Turnpike Authority was created to study, design, plan, construct, finance, and operate a system of toll roads, bridges, and/or tunnels supplementing the traditional non-toll transportation system serving the citizens of the State. The Turnpike Authority is governed by a nine member board consisting of four members appointed by the General Assembly, four members appointed by the Governor, and the Secretary of Transportation. The State has the ability to impose its will since appointed members may be removed without cause.

Availability of Financial Statements

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

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

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

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

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

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

North Carolina Railroad Company
2809 Highwoods Boulevard, Suite 100
Raleigh, NC 27604-1000

N.C. Phase II Tobacco Certification Entity, Inc.
3000 Highwoods Blvd., Suite 315
Raleigh, N.C. 27604

Northeastern N.C. Regional Economic Development Commission
119 West Water Street
Edenton, N.C. 27932

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

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

N.C. Agricultural Finance Authority
c/o N.C. Department of Agriculture
And Consumer Services
P.O. Box 27647
Raleigh, NC 27611

N.C. Global TransPark Authority
P.O. Box 1476
Kinston, N.C. 28503-1476

The North Carolina Infrastructure Finance Corporation and the North Carolina Turnpike Authority do not issue separate financial statements.

B. Basis of Presentation

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. Private sector standards of accounting and financial reporting issued on or before November 30, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent those pronouncements do not conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance. The financial statements of the North Carolina Railroad Company (Railroad), a for-profit corporation (discretely presented component unit), have been prepared in accordance with FASB pronouncements.

The financial statements are presented as of and for the fiscal year ended June 30, 2005, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2004, 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, 2004.

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

Government-wide Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS

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

Fund Financial Statements

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

The State reports the following major governmental funds:

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

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

Highway Trust Fund
This fund was established by legislation (Chapter 692 of the 1989 Session Laws) to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. Additionally, this fund provides supplemental allocations for secondary road construction and supplemental assistance to municipalities for local street projects. The fund also makes transfers to the General Fund and the Highway Fund. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise funds:

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

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

Additionally, the State reports the following fund types:

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

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

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

Private-purpose Trust Funds

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

Agency Funds

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

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Generally, the State considers revenues reported in the governmental funds to be available if they are collectible within thirty-one days after year-end. Exceptions are the federal funds and county funds accrued for the matching share of the medicaid claims payable. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds, and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the State.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, obligations for workers' compensation, and arbitrage rebate liabilities, which are recognized as expenditures when payment is due. Pension contributions to cost-sharing pension plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

D. Cash and Cash Equivalents

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

E. Investments

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

F. Securities Lending

Cash and securities received as collateral on securities lending transactions are reported as assets in the accompanying financial statements. Liabilities resulting from the securities lending transactions are also reported. Certain component units of the State deposit funds with the State Treasurer's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund. Additional disclosures about the State Treasurer's securities lending transactions are provided in Note 3.

G. Receivables and Payables

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

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

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

H. Inventories and Prepaid Items

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

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

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

I. Restricted/Designated Assets

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

J. Capital Assets

Capital assets, which include property, plant, equipment; easements; and infrastructure assets (e.g., State highway network, utility systems, and similar items), are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. The State highway network constructed prior to July 1, 2001 is recorded at estimated historical cost. Since July 1, 2001 the State highway network is recorded at cost. The initial estimated historical cost of the network is based on construction expenditures reported by the Department of Transportation less amounts estimated for the cost of right-of-ways and land improvements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

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

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

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

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

K. Tax Refund Liabilities

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

L. Compensated Absences

Employees of the State and component units are permitted to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Also, when determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The State's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not part of the 30 day maximum applicable to regular vacation leave and is not subject to conversion to sick leave.

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

M. Long-Term Liabilities

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

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

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

N. Sureties

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

O. Net Assets/Fund Balance

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

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. Designations of fund balance represent tentative management plans that are subject to change (See Note 10, Fund Balance Reserves).

P. Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as noncapital grants and investment earnings, result from nonexchange transactions or ancillary activities. Capital contributions are reported separately, after nonoperating revenues and expenses.

Q. Food Stamps

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Balance / Net Assets Deficit

Primary Government

At June 30, 2005, the General Fund has a fund balance deficit of $78.809 million, compared to a deficit balance of $196.287 million the previous year. The overall decrease in the deficit is partially related to the forgiveness of the $125 million advance from the Highway Trust Fund per Senate Bill 622. The State balanced the General Fund budget on the cash basis as required by the State constitution. However, the deficit was created due to accrued liabilities exceeding accrued assets.

At June 30, 2005, the following special revenue fund reported a fund balance deficit: Highway Trust Fund, $2.909 million. The deficit was partially related to the forgiveness of the $125 million advance to the General Fund per Senate Bill 622. The implementation of the Moving Ahead Transportation Initiative also contributed to the deficit in the Highway Trust Fund.

At June 30, 2005, the following pension and other employee benefit trust funds reported a net assets deficit: State Health Plan, $60.477 million and Disability Income Plan of N.C., $17.140 million.

Component Unit

At June 30, 2005, the following component unit reported a net assets deficit: N. C. Turnpike Authority, $64 thousand.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

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

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the State Health Plan, the Disability Income Plan of N.C., the Escheats Fund, the Public School Insurance Fund, the State Education Assistance Authority, and trust funds of the University of North Carolina System, in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

External Investment Pool

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

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

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

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

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

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

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

Statement of Net Assets
June 30, 2005

Assets:	
Cash and cash equivalents	$ 747,059
Other assets	381,176
Investments	91,935,571
Total assets	93,063,806
Liabilities:	
Distributions payable	9,975
Other payables	5,981
Obligations under securities lending	18,715,748
Total liabilities	18,731,704
Net Assets:	
Internal:	
Primary government	71,445,114
Component units	2,423,845
External	463,143
Total net assets	$ 74,332,102

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Revenues:	
Investment income	$ 6,730,510
Expenses:	
Securities lending	411,903
Investment management	107,002
Total expenses	518,905
Net increase in net assets resulting from operations	6,211,605
Distributions to participants:	
Distributions paid and payable	(6,211,605)
Share transactions:	
Reinvestment of distributions	6,224,752
Net share redemptions	(1,283,385)
Total increase in net assets	4,941,367
Net assets:	
Beginning of year	69,390,735
End of year	$ 74,332,102

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

Investments in nonparticipating contracts, such as nonnegotiable certificates of deposit, are reported at cost. Other investments held in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value. All other investments are reported at fair value. Fair values are determined daily for the Long-term Investment and Equity Investment portfolios and quarterly for the Real Estate Investment and Alternative Investment portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate trusts, limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2005, $31.917 million of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were not exposed to custodial credit risk.

The State Treasurer's deposit policy for custodial credit risk is limited to complying with the collateralization rules of the North Carolina Administrative Code (Chapter 20 NCAC 7). Deposits to the Investment Pool may be made in any bank, savings and loan association or trust company in the State as approved by the State Treasurer. The North Carolina Administrative Code requires depositories to collateralize all balances that are not insured. The depositories must maintain specified security types in a third party escrow account established by the State Treasurer. The securities collateral must be governmental in origin (e.g., U.S. Treasury, U.S. agency, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. The market value of the collateral must not be less than the value of the uninsured deposits. The depositories may elect to collateralize deposits separately (dedicated method) or include deposits of the North Carolina local government units in a collateral pool with the State and certain component units (pooling method).

NOTES TO THE FINANCIAL STATEMENTS

Investments

At year-end, the Investment Pool maintained by the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 14,215,705	$ 2,750,471	$ 4,883,056	$ 1,550,316	$ 5,031,862
U.S. agencies	3,692,503	199,900	102,074	2,621,512	769,017
Mortgage pass-throughs	6,287,156	—	—	—	6,287,156
Repurchase agreements	420,000	420,000	—	—	—
Domestic corporate bonds	8,678,528	—	663,643	4,362,721	3,652,164
Securities purchased with cash collateral under securities lending program:					
U.S. agencies	100,000	100,000	—	—	—
Asset-backed securities	8,060,503	1,340,411	6,720,092	—	—
Repurchase agreements	2,593,021	2,593,021	—	—	—
Domestic corporate bonds	7,962,224	722,031	7,240,193	—	—
	52,009,640	$ 8,125,834	$ 19,609,058	$ 8,534,549	$ 15,740,199
Other securities:					
Equity based trust - domestic	31,805,654				
Equity based trust - international	5,824,904				
Alternative investments:					
Hedge funds	801,888				
Private equity investment partnerships	296,715				
Stock distributions	4,119				
Real estate trust funds	1,612,651				
Total investment securities	$ 92,355,571				

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

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries	$ 12,775,848	1.500%-8.875%
U.S. agencies	3,529,786	1.875%-7.125%
Mortgage pass-throughs	6,111,817	5.000%-9.000%
Domestic corporate bonds	7,888,559	3.500%-9.800%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	8,059,190	3.190%-3.550%
Repurchase agreements	2,593,021	3.150%-3.530%
Domestic corporate bonds	7,961,130	3.150%-3.690%
Equity-based trust - domestic	n/a	n/a
Equity-based trust - international	n/a	n/a

Equity-based Trust - The State Treasurer has contracted with an external party (Trustee) to create the "Treasurer of the State of North Carolina Equity Investment Fund Pooled Trust" (the Trust). The State's pension trust funds are the only depositors in the Trust. The State Treasurer employs investment managers to manage the assets, primarily in equity and equity-based securities in accordance with the General Statutes and parameters provided by the State Treasurer. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The Trustee also acts as a securities lending agent for the Trust, invests residual cash in a cash sweep fund, and may be temporarily employed as an investment manager. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities.

Interest Rate Risk. Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.41 years as of June 30, 2005. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

NOTES TO THE FINANCIAL STATEMENTS

The assets of the Long-term Investment portfolio are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the retirement systems' liabilities. At year-end, pensions and other employee benefit plans owned 97% of the Long-term Investment portfolio and the escheats fund (included with other governmental funds) owned 2%.

The Long-term Investment portfolio holds investments in Government National Mortgage Association mortgage pass through pools. Critical to the pricing of these securities are the specific features of the cash flows from the interest and principal payments of the underlying mortgages. Therefore, these valuations are very sensitive to the potential of principal prepayments by mortgagees in periods of declining interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates as similar securities without call options.

Credit Risk. N.C. General Statute 147-69.1 specifies the cash investment options for the Short-term Investment portfolio. The statute limits credit risk by restricting the portfolio's corporate obligations, asset-backed securities, and commercial paper to securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service. N.C. General Statute 147-69.2 specifies the cash investment options for the Long-term Investment portfolio. The statute limits credit risk by restricting the portfolio's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service and do not bear a rating below one of the four highest ratings by any nationally recognized rating service. In the Long-term Investment portfolio, all holdings were rated BBB (or equivalent) or higher at the time of purchase by all three nationally recognized rating agencies.

At year-end, the Investment Pool had the following credit quality distribution for securities with credit exposure (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch				
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Unrated
U.S. agencies	$ 3,692,503	$ —	$ —	$ —	$ —
Domestic corporate bonds	620,006	2,564,280	3,590,814	1,903,428	—
Securities purchased with cash collateral under securities lending program:					
U.S. agencies	100,000	—	—	—	—
Asset-backed securities	8,060,503	—	—	—	—
Repurchase agreements	2,593,021	—	—	—	—
Domestic corporate bonds	1,167,685	5,045,307	1,499,081	—	250,151
Total	$ 16,233,718	$ 7,609,587	$ 5,089,895	$ 1,903,428	$ 250,151

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year-end, the investments purchased with cash collateral under the securities lending program of $18.716 billion were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk. At year-end, the Investment Pool's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type: Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Total
Euro	$ 1,700,916	$ 62,432	$ 1,763,348
Japanese Yen	1,013,901	—	1,013,901
Pound Sterling	953,475	—	953,475
Swiss Franc	400,182	—	400,182
Hong Kong Dollar	185,936	—	185,936
Australian Dollar	185,178	—	185,178
South Korean Won	135,141	—	135,141
New Taiwan Dollar	130,326	—	130,326
Canadian Dollar	93,839	—	93,839
Other Currencies	475,537	—	475,537
Total	$ 5,274,431	$ 62,432	$ 5,336,863

Although there is no formally adopted investment policy, the State Treasurer's investment policy permits up to 9.5% of the retirement systems' invested assets to be in international securities. At year-end, the retirement systems had approximately 8.2% invested in international securities.

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 and agency securities, GNMAs, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102% of the market value of the securities lent, and additional collateral is required if its value falls to less than 100% 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. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments are less than the average maturities of the securities lent. While cash can be invested in securities ranging from overnight to five years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 30 days. At year-end, the weighted average maturity of unmatched investments was approximately 28 days.

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

Interest rate risk and credit risk. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the securities custodian. Contractually, asset-backed securities must bear the highest rating of at least one nationally recognized rating service. The expected maturity shall not exceed five years and securities having a final maturity greater than two years will be in floating rate instruments with interest rate resets occurring at no greater than 90-day intervals to minimize the effect of interest rate fluctuations on their valuations. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies, or specified bank or corporate obligations. As directed by the State Treasurer, repurchase counterparties are limited to specific counterparties with specific dollar limits per counterparty. Corporate bonds and notes, including bank holding company obligations, rated AA must have a final maturity no greater than three years. Securities rated A must have a final maturity no greater than two years. No more than five percent of the cash collateral may be invested in a single issue .

Bond Proceeds Investment Accounts

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

At year-end, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Repurchase agreements	$ 748,607	1
Total investments	$ 748,607	

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with N.C. General Statute 147-69.1, which limits credit risk as described above, and can only be invested in short-term maturities with the average maturity ranging between overnight to six months based on the liquidity needs of the investment accounts.

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 certain component units. As a general rule, these deposits are not covered by the rules in Chapter 20 NCAC 7 requiring collateralization of uninsured deposits.

Primary Government

The majority of deposits held outside the State Treasurer were maintained by the various clerks of superior court. The clerks of superior court do not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	$ 53,621
Uninsured and collateral held by pledging bank	10
Total	$ 53,631

Component Units

(University of North Carolina System and State Education Assistance Authority)

The University of North Carolina (UNC) System does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the UNC System were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	$ 68,210
Uninsured and collateral held by pledging bank	356
Total	$ 68,566

The State Education Assistance Authority does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the State Education Assistance Authority were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and collateral held by pledging bank	$ 24,417
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name	105,136
Total	$ 129,553

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

At year-end, 74% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina.

Supplemental Retirement Income Plan of North Carolina

The General Statutes place no specific investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the 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. The Plan does not have formal investment policies that address interest rate risk, credit risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2004, the Supplemental Retirement Income Plan of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
Fidelity Intermediate Bond Fund	$ 180,713	$ —	$ 180,713	$ —	$ —
Prudential Stable Value Fund:					
U.S. Treasuries	201,585	24,895	103,709	11,219	61,762
U.S. agencies	80,826	7,119	56,240	11,562	5,905
Collateralized mortgage obligations	299,049	35,653	—	2,151	261,245
Asset-backed securities	6,261	—	—	6,261	—
Domestic corporate bonds	161,715	141	67,733	69,589	24,252
Foreign corporate bonds	27,466	—	15,182	8,837	3,447
Foreign government bonds	10,252	—	3,547	5,298	1,407
	967,867	$ 67,808	$ 427,124	$ 114,917	$ 358,018
Other securities:					
Other mutual funds	1,955,021				
Prudential Stable Value Fund:					
Amount guaranteed by insurance company	1,025				
Money market funds	4,237				
Total investment securities	$ 2,928,150				

The Prudential Stable Value Fund is a trust product and is comprised of a group annuity contract issued by The Prudential Insurance Company of America and a portfolio of assets owned by the Plan. Principal and accrued interest is guaranteed by The Prudential Insurance Company of North Carolina.

Interest Rate Risk and Credit Risk. The Fidelity Intermediate Bond Fund, which is unrated, had a weighted average maturity of 4.3 years as of April 30, 2005. In the above table, it is disclosed as an investment with a maturity of one to five years. Of the underlying securities in the Prudential Stable Value Fund with credit risk exposure, $205.1 million were rated BBB or above by Standard & Poor's and $380.5 million were unrated.

Custodial Credit Risk. The Prudential Stable Value Fund had a custodial credit risk exposure of $787.2 million because the underlying securities were uninsured, unregistered, and held by the counterparty.

Concentration of Credit Risk. More than 5% of the Plan's investment is in collateralized mortgage obligations issued by the Federal National Mortgage Association. These investments were 6.98% of the Plan's total investments.

Foreign Currency Risk. The Plan owns two international mutual funds, the American Europacific Growth Fund and the T. Rowe Price International Stock Fund (included with "Other mutual funds"). These funds had a carrying value of $82.4 million and $646 thousand, respectively, at December 31, 2004.

Other Primary Government Investments

The other primary government investments held outside the State Treasurer consisted almost entirely of balances maintained by the Deferred Compensation Plan and separate investment accounts held by trustees for special obligation debt issues to comply with IRS regulations on bond arbitrage.

General Statute 143B-426.24(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. All assets of the Plan, including all deferred amounts, property and rights purchased with deferred amounts, and all income attributed thereto shall be held in trust for the exclusive benefit of the Plan participants and their beneficiaries.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the other primary government investments maintained outside the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 521	$ 72	$ 139	$ 162	$ 148
U.S. Treasury STRIPS	1,346	420	882	44	—
U.S. agencies	871	102	734	35	—
Mortgage pass throughs	146	—	110	36	—
Collateralized mortgage obligations	5	—	3	2	—
State and local government	110	—	97	13	—
Asset-backed securities	28	—	27	1	—
Repurchase agreements	310,016	310,016	—	—	—
Commercial paper	3,130	3,130	—	—	—
Annuity contracts	40,739	—	40,739	—	—
Money market mutual funds	4,885	4,885	—	—	—
Mutual bond funds	9,483	—	—	9,483	—
Domestic corporate bonds	117	—	52	51	14
	371,397	$ 318,625	$ 42,783	$ 9,827	$ 162
Other securities:					
Other mutual funds	567,072				
Domestic stocks	24,909				
Other	479				
Total investment securities	$ 963,857				

Interest Rate Risk and Credit Risk. The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank with a short-term rating not less than P-1 from Moody's Investors Service (Moody's) and not less than A-1 from Standard & Poor's (S&P) and Fitch Ratings (Fitch); or 2) any commercial bank, trust company, or national banking association rated A or better by Moody's, S&P and Fitch, the deposits of which are insured by the Federal Deposit Insurance Corporation. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate risk.

At year-end, the other primary government investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below	Unrated
U.S. agencies	$ 871	$ —	$ —	$ —	$ —	$ —
Mortgage pass throughs	122	—	—	—	—	21
Collateralized mortgage obligations	1	—	4	—	—	—
State and local government	71	—	—	39	—	—
Asset-backed securities	28	—	—	—	—	—
Commercial paper	—	—	3,130	—	—	—
Annuity contracts	—	—	—	—	40,739	—
Money market mutual funds	4,885	—	—	—	—	—
Mutual bond funds	8,610	284	95	379	95	20
Domestic corporate bonds	10	20	43	44	—	—
Total	$ 14,598	$ 304	$ 3,272	$ 462	$ 40,834	$ 41

Component Units
(University of North Carolina System and State Education Assistance Authority)

University of North Carolina System

The General Statutes place no specific investment restrictions on the University of North Carolina System. 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.

At year-end, the UNC System had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 54,323	$ 3,018	$ 26,340	$ 683	$ 24,282
U.S. Treasury STRIPS	2,787	34	2,340	337	76
U.S. agencies	32,403	5,096	14,745	9,459	3,103
Mortgage pass throughs	64,167	91	13,362	8,982	41,732
Collateralized mortgage obligations	99,358	—	1,781	250	97,327
State and local government	3,131	60	2,861	60	150
Asset-backed securities	4,302	—	1,126	2,355	821
Repurchase agreements	672	—	672	—	—
Money market mutual funds	213,022	213,022	—	—	—
Mutual bond funds	169,008	1,714	31,866	119,521	15,907
Domestic corporate bonds	59,750	2,825	25,868	13,834	17,223
Foreign corporate bonds	4,493	—	15	4,435	43
Foreign government bonds	137	—	42	40	55
	707,553	$ 225,860	$ 121,018	$ 159,956	$ 200,719
Other securities:					
Other mutual funds	310,750				
Investments in real estate	52,454				
Real estate investment trusts	10,374				
Limited partnerships	739,814				
Pooled investments	350				
Domestic stocks	247,282				
Foreign stocks	13,204				
Other	472,009				
Total investment securities	$ 2,553,790				

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

Interest Rate Risk and Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address interest rate risk or credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below	Unrated
U.S. agencies	$ 21,812	$ 3,442	$ —	$ —	$ 7	$ 3,828
Mortgage pass throughs	5,662	—	—	—	—	33,201
Collateralized mortgage obligations	51,150	12,285	29,462	104	—	6,331
State and local government	2,928	20	—	—	—	183
Asset-backed securities	3,299	48	456	499	—	—
Money market mutual funds	200,939	—	12,083	—	—	—
Mutual bond funds	84,298	30,395	26,736	5,005	2,287	20,287
Domestic corporate bonds	23,160	1,768	21,178	11,507	2,054	83
Foreign corporate bonds	—	19	53	29	4,392	—
Foreign government bonds	—	31	55	43	—	8
Total	$ 393,248	$ 48,008	$ 90,023	$ 17,187	$ 8,740	$ 63,921

Custodial Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address custodial credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

	Carrying Amount	
Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	$ 1,773	$ 605
U.S. agencies	1,158	—
Mortgage pass throughs	627	—
Collateralized mortgage obligations	513	—
Asset-backed securities	221	—
Repurchase agreements	672	—
Domestic corporate bonds	31,598	—
Domestic stocks	52,800	—
Foreign stocks	195	—
Total	$ 89,557	$ 605

Foreign Currency Risk. The constituent institutions of the UNC System do not have formal investment policies that address foreign currency risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to foreign currency risk as follows (dollars in thousands):

	Carrying Amount
Currency	Limited Partnerships
Euro	$ 18,584
Japanese Yen	2,600
Pound Sterling	3,612
Other Currencies	884
Total	$ 25,680

NOTES TO THE FINANCIAL STATEMENTS

The State Education Assistance Authority

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

Investments. In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

The Authority does not have a formal investment policy that addresses interest rate risk. The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the Authority's investments (dollars in thousands):

		Investment Maturities (in Years)	
Investment Type	Carrying Amount	6 to 10	More Than 10
Debt securities:			
U.S. Treasuries	$ 10,449	$ 6,529	$ 3,920
Repurchase agreements	8,423	—	8,423
Mutual bond funds	15,584	15,584	—
	34,456	$ 22,113	$ 12,343
Other securities:			
International mutual funds	13,847		
Other mutual funds	88,038		
Domestic stocks	16,425		
Other	15,283		
Total investment securities	$ 168,049		

Credit Risk. The Authority has formally adopted investment policies for credit risk stating that certain investment obligations shall bear one of the two highest ratings by nationally recognized rating services. As of June 30, 2005, the Authority's investments were rated as follows (dollars in thousands):

	Carrying Amount by Credit Rating - S&P	
Investment Type	Aaa/AAA	Unrated
Repurchase agreements	$ —	$ 8,423
Mutual bond funds	10,603	4,981
Total	$ 10,603	$ 13,404

Custodial Credit Risk. The Authority does not have a formal policy that addresses custodial credit risk. The Authority's investments were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty's Trust Dept. or Agent but not in State's Name
Repurchase agreements	$ 8,423
Domestic Stocks	16,425
Total	$ 24,848

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer. More than 5% of the Authority's investments are in Trinity Funding, FSA Capital Management, and MetLife Funding. These investments are 30%, 7%, and 6%, respectively, of the Authority's investments.

NOTE 4: RECEIVABLES

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

Governmental Activities:

	General Fund[1]	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds[1]	Total
Receivables, gross (excluding notes)	$ 2,333,503	$ 166,543	$ 34,134	$ 47,561	$ 17,413	$ 2,599,154
Allowance for doubtful accounts	(353,162)	(6,008)	—	(101)	—	(359,271)
Receivables, net	$ 1,980,341	$ 160,535	$ 34,134	$ 47,460	$ 17,413	$ 2,239,883
Notes receivable, gross	$ 5,024	$ 1,051	$ 113	$ 363,384	$ —	$ 369,572
Allowance for doubtful accounts	—	—	—	(48,386)	—	(48,386)
Notes receivable, net	$ 5,024	$ 1,051	$ 113	$ 314,998	$ —	$ 321,186

(1) Includes balances due from fiduciary funds.

Within governmental activities, the only significant receivables not expected to be collected within one year are $198.5 million of notes receivable in other governmental funds and $5.0 million of notes receivable in the General Fund.

Business-Type Activities:

	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Total
Receivables, gross (excluding notes)	$ 437,446	$ 3,185	$ 5,630	$ 446,261
Allowance for doubtful accounts	(49,370)	—	(37)	(49,407)
Receivables, net	$ 388,076	$ 3,185	$ 5,593	$ 396,854
Notes receivable, gross	$ —	$ 492,103	$ —	$ 492,103
Allowance for doubtful accounts	—	—	—	—
Notes receivable, net	$ —	$ 492,103	$ —	$ 492,103

Revenues of other enterprise funds are reported net of uncollectible amounts.

Within business-type activities, the only significant receivables not expected to be collected within one year are $462.7 million of notes receivable in the EPA Revolving Loan Fund.

NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2005 is presented below (dollars in thousands).

Governmental Activities:	**Balance July 1, 2004 (as restated)**	**Additions**	**Deductions**	**Balance June 30, 2005**
Capital Assets, nondepreciable:				
Land	$ 8,300,655	$ 614,076	$ (2,578)	$ 8,912,153
Art, literature, and other artifacts	46,193	1,808	(2)	47,999
Construction in progress	1,634,928	1,710,966	(1,374,688)	1,971,206
Total capital assets-nondepreciable	9,981,776	2,326,850	(1,377,268)	10,931,358
Capital Assets, depreciable:				
Buildings	2,205,086	112,115	(17,542)	2,299,659
Machinery and equipment	1,509,421	139,588	(147,473)	1,501,536
Intangibles	203,403	4,663	(7,919)	200,147
General infrastructure	171,160	9,849	(3,620)	177,389
State highway system	18,102,020	1,352,133	(34,433)	19,419,720
Total capital assets-depreciable	22,191,090	1,618,348	(210,987)	23,598,451
Less accumulated depreciation for:				
Buildings	(626,337)	(44,790)	1,350	(669,777)
Machinery and equipment	(948,486)	(112,601)	78,910	(982,177)
Intangibles	(96,897)	(4,888)	7,676	(94,109)
General infrastructure	(94,069)	(5,748)	79	(99,738)
State highway system	(4,817,753)	(388,394)	33,746	(5,172,401)
Total accumulated depreciation	(6,583,542)	(556,421)	121,761	(7,018,202)
Total capital assets-depreciable, net	15,607,548	1,061,927	(89,226)	16,580,249
Governmental activities capital assets, net	$ 25,589,324	$ 3,388,777	$ (1,466,494)	$ 27,511,607

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities:

	Balance July 1, 2004 (as restated)	Additions	Deductions	Balance June 30, 2005
Capital Assets, nondepreciable:				
Land	$ 3,113	$ 33	$ —	$ 3,146
Construction in progress	24,534	663	(23,386)	1,811
Total capital assets-nondepreciable	27,647	696	(23,386)	4,957
Capital Assets, depreciable:				
Buildings	33,982	—	—	33,982
Machinery and equipment	5,706	179	(223)	5,662
General infrastructure	23,881	23,422	—	47,303
Intangible Assets	—	1,569	—	1,569
Total capital assets-depreciable	63,569	25,170	(223)	88,516
Less accumulated depreciation for:				
Buildings	(17,657)	(815)	—	(18,472)
Machinery and equipment	(3,751)	(278)	174	(3,855)
General infrastructure	(14,635)	(1,866)	—	(16,501)
Total accumulated depreciation	(36,043)	(2,959)	174	(38,828)
Total capital assets-depreciable, net	27,526	22,211	(49)	49,688
Business-type activities capital assets, net	$ 55,173	$ 22,907	$ (23,435)	$ 54,645

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

Governmental activities:

General government	$ 37,449
Primary and secondary education	2,209
Higher Education	86
Health and human services	13,380
Economic development	1,470
Environment and natural resources	11,426
Public safety, correction, and regulation	41,556
Transportation	445,166
Agriculture	3,679
Total depreciation expense	$ 556,421

Business-type activities:

Town of Butner Water and Sewer	$ 1,665
N.C. State Fair	527
USS North Carolina Battleship Commission	127
Agricultural Farmers Market	293
EPA Revolving Loan Fund	22
State Banking Commission	8
ABC Commission	119
Utilities Commission	128
Other business-type activities	70
Total depreciation expense	$ 2,959

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System and Community Colleges). Capital asset activity for the University of North Carolina System and Community Colleges for the fiscal year ended June 30, 2005, was as follows (dollars in thousands):

University of North Carolina System:	**Balance July 1, 2004 (as restated)**	**Additions**	**Deductions**	**Balance June 30, 2005**
Capital Assets, nondepreciable:				
Land	$ 163,769	$ 29,602	$ (1,406)	$ 191,965
Art, literature, and other artifacts	96,288	2,165	(146)	98,307
Construction in progress	961,393	791,386	(701,340)	1,051,439
Total capital assets-nondepreciable	1,221,450	823,153	(702,892)	1,341,711
Capital Assets, depreciable:				
Buildings	4,396,818	796,399	(11,930)	5,181,287
Machinery and equipment	1,215,270	128,462	(56,421)	1,287,311
Intangibles	1,000	—	—	1,000
Art, literature, and other artifacts	1,724	183	—	1,907
General infrastructure	724,953	80,624	(1,259)	804,318
Total capital assets-depreciable	6,339,765	1,005,668	(69,610)	7,275,823
Less accumulated depreciation for:				
Buildings	(1,466,560)	(128,819)	6,625	(1,588,754)
Machinery and equipment	(771,513)	(106,687)	43,480	(834,720)
Art, literature, and other artifacts	(653)	(148)	—	(801)
General infrastructure	(245,633)	(25,989)	560	(271,062)
Total accumulated depreciation	(2,484,359)	(261,643)	50,665	(2,695,337)
Total capital assets-depreciable, net	3,855,406	744,025	(18,945)	4,580,486
University of North Carolina System capital assets, net	$ 5,076,856	$ 1,567,178	$ (721,837)	$ 5,922,197

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2005, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of $59.388 million and net depreciable capital assets of $126.822 million.

Community Colleges:

	Balance July 1, 2004 (as restated)	Additions	Deductions	Balance June 30, 2005
Capital Assets, nondepreciable:				
Land	$ 88,777	$ 8,044	$ (42)	$ 96,779
Art, literature, and other artifacts	474	—	—	474
Construction in progress	109,408	167,001	(40,302)	236,107
Total capital assets-nondepreciable	198,659	175,045	(40,344)	333,360
Capital Assets, depreciable:				
Buildings	1,283,537	55,018	(2,013)	1,336,542
Machinery and equipment	173,882	15,264	(4,634)	184,512
Art, literature, and other artifacts	46	—	—	46
General infrastructure	65,206	3,638	(21)	68,823
Total capital assets-depreciable	1,522,671	73,920	(6,668)	1,589,923
Less accumulated depreciation for:				
Buildings	(391,446)	(33,014)	592	(423,868)
Machinery and equipment	(102,430)	(13,685)	3,706	(112,409)
Art, literature, and other artifacts	(15)	(3)	—	(18)
General infrastructure	(31,022)	(3,279)	130	(34,171)
Total accumulated depreciation	(524,913)	(49,981)	4,428	(570,466)
Total capital assets-depreciable, net	997,758	23,939	(2,240)	1,019,457
Community Colleges capital assets, net	$ 1,196,417	$ 198,984	$ (42,584)	$ 1,352,817

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2005, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of $1.695 million and net depreciable capital assets of $1.234 million.

NOTE 6: SHORT-TERM DEBT

Primary Government

Beginning January 1, 2005, the State received repayable advances from the Federal Unemployment Account (FUA) to finance an operating deficit in the State's unemployment compensation fund. The tax anticipation notes issued for the period September 30, 2004 through December 31, 2004 were repaid as employer contributions became available beginning January 1, 2005. Once the tax anticipation notes were repaid in total, the State used the employer contributions to reduce the amount of repayable advances requested. The State took additional advances after June 30, 2005, (see Note 23, Subsequent Events); however, all advances from the FUA were repaid in full by September 30, 2005. Advances taken from January 1, 2005 through September 30, 2005, which are repaid in full on or before September 30, 2005 are considered cash flow advances and do not accrue interest provided that the State does not take additional advances from October 1, 2005 through December 31, 2005. The State does not plan to take additional FUA advances through December 31, 2005.

Short-term debt activity for the fiscal year ended June 30, 2005, was as follows (dollars in thousands):

	Balance July 1, 2004	Draws	Repayments	Balance June 30, 2005
FUA Advance	$ 251,759	$ 480,649	$ (618,718)	$ 113,690
Anticipation Notes	—	269,096	(269,096)	—

Component Units

University of North Carolina System

North Carolina State University has available commercial paper program financing for short-term credit up to $60 million to finance capital construction projects. The University's available funds are pledged to the commercial paper program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2005, $2 million in tax-exempt commercial paper was outstanding.

Commercial paper was issued from the University of North Carolina General Revenue Bonds, Series 2002A, to provide interim financing for the construction of capital projects.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2005, was as follows (dollars in thousands):

	Balance July 1, 2004	Draws	Repayments	Balance June 30, 2005
Commercial Paper Program	$ 23,841	$ 153,300	$ (34,000)	$ 143,141

NOTE 7: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2005, was as follows (dollars in thousands):

	Balance July 1, 2004 (as restated)	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	$ 4,982,860	$ 1,981,165	$ (1,265,490)	$ 5,698,535	$ 329,720
Lease-purchase revenue bonds	218,405	53,640	(7,000)	265,045	10,000
Certificates of participation	301,165	188,385	(14,380)	475,170	21,110
Less deferred amounts:					
For issuance discounts	(1,724)	—	549	(1,175)	—
On refunding	(57,940)	(72,738)	11,025	(119,653)	—
Add issuance premium	158,776	209,324	(29,096)	339,004	—
Total bonds and similar debt payable	5,601,542	2,359,776	(1,304,392)	6,656,926	360,830
Notes payable	25,008	12,686	(3,687)	34,007	6,488
Capital leases payable	304	212	(186)	330	149
Arbitrage rebate payable	43	—	(43)	—	—
Compensated absences	317,975	206,606	(197,397)	327,184	34,127
Net pension obligation	2,186	14,219	(14,361)	2,044	—
Workers' compensation	6,195	262	(957)	5,500	1,075
Deferred death benefit payable	270	130	—	400	195
Cost settlement payable	7,500	—	(2,500)	5,000	2,500
Governmental activity long-term liabilities	$ 5,961,023	$ 2,593,891	$ (1,523,523)	$ 7,031,391	$ 405,364
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 9,325	$ —	$ (255)	$ 9,070	$ 270
Total bonds payable	9,325	—	(255)	9,070	270
Notes payable	—	1,661	(92)	1,569	112
Compensated absences	2,786	1,983	(2,277)	2,492	190
Business-type activity long-term liabilities	$ 12,111	$ 3,644	$ (2,624)	$ 13,131	$ 572

For governmental activities, the compensated absences, net pension obligation, workers' compensation, and cost settlement liabilities are generally liquidated by the General Fund. Arbitrage rebate payable is generally liquidated by other governmental funds. A portion of compensated absences is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $3.329 million of internal service funds compensated absences are included in the above amounts.

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2005, was as follows (dollars in thousands):

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$ 1,635,504	$ 290,631	$ (191,252)	$ 1,734,883	$ 160,613
Certificates of participation	—	31,545	(360)	31,185	1,395
Less deferred amounts:					
For issuance discounts	(56,504)	—	4,005	(52,499)	—
On refunding	(22,810)	(3,488)	1,208	(25,090)	—
Add issuance premium	14,687	11,411	(1,055)	25,043	—
Total bonds payable	1,570,877	330,099	(187,454)	1,713,522	162,008
Notes payable	43,713	49,695	(23,668)	69,740	2,638
Capital leases payable	16,736	19,122	(2,423)	33,435	2,430
Arbitrage rebate payable	3,729	66	—	3,795	—
Annuity and life income payable	9,414	1,735	(461)	10,688	910
Compensated absences	230,469	158,563	(155,608)	233,424	17,192
Total long-term liabilities	$ 1,874,938	$ 559,280	$ (369,614)	$ 2,064,604	$ 185,178

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2005, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $289.171 million, of which $9.947 million was due within one year and $279.224 million was due in more than one year.

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	$ 1,268,137	$ 195,000	$ (151,272)	$ 1,311,865	$ 31,035
Less deferred amounts:					
For issuance discounts	(19,809)	(2,212)	2,452	(19,569)	—
On refunding	(168)	—	23	(145)	—
Total bonds payable	1,248,160	192,788	(148,797)	1,292,151	31,035
Arbitrage rebate payable	1,089	113	(905)	297	113
Compensated absences	520	313	(250)	583	30
Total long-term liabilities	$ 1,249,769	$ 193,214	$ (149,952)	$ 1,293,031	$ 31,178

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$ 1,685,968	$ 396,650	$ (161,056)	$ 1,921,562	$ 1,000
Total bonds payable	1,685,968	396,650	(161,056)	1,921,562	1,000
Arbitrage rebate payable	2,794	7	—	2,801	—
Compensated absences	195	3	(8)	190	9
Total long-term liabilities	$ 1,688,957	$ 396,660	$ (161,064)	$ 1,924,553	$ 1,009

B. Bonds, Certificates of Participation, and Notes Payable

Bonds, certificates of participation, and notes payable at June 30, 2005 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Balance
Primary Government:				
Governmental activities:				
General obligation bonds	1.06% - 6.90%*	2028	$ 8,026,384	$ 5,698,535
Lease-purchase revenue bonds	2.00% - 5.25%	2024	272,045	265,045
Certificates of participation	2.00% - 5.25%	2025	489,840	475,170
Notes payable	2.89% - 10.00%	2009	45,406	34,007
Business-type activities:				
Revenue bonds	4.21% - 4.32%*	2025	$ 9,905	$ 9,070
Notes payable	0.00%	2020	1,681	1,569
Component Units:				
University of North Carolina System				
Revenue bonds	2.00% - 10.00%*	2034	$ 1,898,809	$ 1,734,883
Certificates of participation	3.00% - 5.00%	2035	31,545	31,185
Notes payable	2.87% - 9.45%*	2035	83,780	69,740
North Carolina Housing Finance Agency				
Revenue bonds	2.00% - 9.03%*	2043	$ 2,941,066	$ 1,311,865
State Education Assistance Authority				
Revenue bonds	2.41% - 6.35%*	2034	$ 2,041,900	$ 1,921,562

* For variable rate debt, interest rates in effect at June 30, 2005 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

The full faith, credit, and taxing power of the State are pledged for the payment of principal and interest on general obligation bonds. The certificates of participation (COPs) and lease-purchase revenue bonds issued by the N.C. Infrastructure Finance Corporation, a blended component unit of the State, are secured by lease and installment payments made by the State and in the event of default, by a security interest in the leased facilities pursuant to a leasehold deed of trust (as applicable). The COPs issued for repair and renovation projects are not secured by a lien upon or security interest in the projects or in any other property of the State. All payments of the State for the COPs and lease-purchase revenue bonds are subject to appropriation by the General Assembly. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Bonds Authorized but Unissued

The amount of authorized but unissued general obligation bonds of the primary government at June 30, 2005, totaled $872.8 million as follows: higher education $703.5 million; and clean water $169.3 million.

The amount of authorized but unissued debt of the primary government subject to annual appropriation requirements at June 30, 2005 totaled $656.3 million as follows: repair and renovation $175 million, universities $337.1 million, hospital $49 million, prisons $52.4 million, youth facilities $22 million and parks $20.8 million.

D. Demand Bonds

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

Component Units

University of North Carolina System

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

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

In 2001 the University issued two series of variable rate demand bonds in the amount of $54,970,000 (2001B) and $54,970,000 (2001C) that each have a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; and Parking System, Series

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

The University renewed its line of credit, in the amount of $107,460,000, with JP Morgan Chase Bank effective February 2, 2005. Under the line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal, and accrued interest on bonds delivered for purchase.

The University is required to pay a quarterly commitment fee for the line of credit of .13% per annum based on the unused portion of the line of credit commitment. If the University's credit rating for unsecured debt were to drop below Aa3 (or its equivalent) by Moody's Investors Service (Moody's), AA- (or its equivalent) by Standard & Poor's (S&P), or AA- (or its equivalent) by Fitch Ratings (Fitch), the quarterly commitment fee would increase to .18%. If the University's credit rating for unsecured debt were to drop below A3 (or its equivalent) by Moody's, A- (or its equivalent) by S&P, or A- (or its equivalent) by Fitch, the quarterly commitment fee would increase to .28%. Additionally, if the University were to terminate the line of credit prior to February 1, 2006, then the University must pay a termination fee of $50,000 less any unused commitment fees paid to date.

Under the line of credit agreement, the University has promised to repay loans that represent purchase drawings in equal semi-annual payments after termination of the line of credit. Interest at the rate of Prime plus 1.0% (Prime plus 2.0% after 60 days) is payable quarterly and upon draw repayment. At June 30, 2005, no purchase draws had been made under the line of credit.

The line of credit agreement expires on February 1, 2006. However, between November 3, 2005, and December 3, 2005, the University may request that the Bank extend the expiration date for another year. The Bank shall respond affirmatively or negatively within 30 days after receipt of such request.

North Carolina Central University – Revenue Bonds Series 2003A

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Demand Bonds ($21,475,000 Variable Rate Revenue Demand Bonds, Series 2003A) that have a maturity date of October 1, 2034. The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the NCCU Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds. The 2003A Bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates or immediately preceding October 1, 2005.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has an Irrevocable Letter of Credit (LOC) for $21,819,518. The LOC is to secure the payment of the principal and purchase price of interest on the Series 2003 Bonds. The LOC was issued by Wachovia Bank, N.A. and expires on October 15, 2006. The LOC may be extended by request from the Foundation by delivering a notice of extension to the Trustee with a new expiration date. At June 30, 2005, the LOC rate for the bonds was 1.40% and the total amount drawn on it was $427,404.

The Foundation paid Wachovia Bank, N.A. a commitment fee of $109,098 for the letter of credit on the date the bonds were issued. Additionally, the Foundation paid credit facility fees in the amount of $77,217 during the fiscal year. If the Foundation terminates the letter of credit on or before August 1, 2006, then the Foundation must pay a termination fee of $25,000. The Bonds are not under a take out agreement; however, in the event of termination 100% of the unpaid principal will be due and payable plus any unpaid and accrued interest.

Under the LOC agreement, the proceeds of each drawing under the LOC to pay the portion of the purchase price of Series 2003 bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Foundation is required to repay each tender advance to Wachovia Bank, N.A. plus an interest rate of Prime plus 1.0%. The amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 180 days after the tender was made and/or the termination date.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has remarketing fees. The remarketing fee is an upfront charge to reset the interest rates on a weekly basis. The remarketing agent is Wachovia Bank, N.A. for the Series 2003A Bonds. At June 30, 2005, the remarketing fee rate for the bonds was 0.125%.

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

North Carolina State University - Revenue Bonds (Centennial Campus Projects), Series 1999A

On September 22, 1999 the University issued tax-exempt variable rate revenue demand bonds in the amount of $13,500,000 that have a final maturity date of December 15, 2019. The bonds are subject to mandatory sinking fund redemption that began on December 1, 2000. The University's proceeds of this issuance were used to (i) discharge a portion of a loan from Wachovia Bank, N.A., the proceeds from which were used for the construction and equipping of a building known as the Partners II Building located on the Centennial Campus of N.C. State, (ii) paying the cost of relocating utility easements on the Centennial Campus of N.C. State, and (iii) paying the costs incurred in connection with the issuance of the 1999A Bonds.

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

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wachovia Bank, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.20% of the available commitment, payable quarterly in arrears, beginning on October 1, 1999 and on each January 1, April 1, July 1, and October 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the bank prime commercial lending rate and Federal Funds Rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2005, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility has been extended and is scheduled to expire on September 15, 2008, unless otherwise extended based on the terms of the agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in twenty quarterly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the Liquidity Provider Rate. In the event the entire issue of $13,000,000 of demand bonds was "put" and not resold, the University would be required to pay $3,028,778 a year for 5 years under this agreement assuming a 6% interest rate.

North Carolina State University - General Revenue Bonds, Series 2003B

On June 20, 2003 the University issued tax-exempt variable rate revenue demand bonds in the amount of $45,660,000 that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

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

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.20% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003 and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the bank prime commercial lending rate and Federal Funds Rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2005, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in twenty quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the Purchase Date along with accrued interest at the Liquidity Provider Rate. In the event the entire issue of $45,365,000 of demand bonds was "put" and not resold, the University would be required to pay $10,569,271 a year for 5 years under this agreement assuming a 6% interest rate.

University of North Carolina Hospitals - Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55,000,000 (2001A) and $55,000,000 (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February

15, 2002. A portion of the proceeds was used to reimburse the Hospitals for $75,000,000 spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare Inc. The remaining proceeds are being used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the remarketing agent on the purchase date and delivery to the bond tender agent, Wachovia Bank, N.A. The Hospitals' remarketing agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) and Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to either 0.05% or 0.08% of the outstanding principal amount of the bonds assigned to each agent, depending upon their performance in comparison to an established benchmark.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thuringen Girozentrale, a Liquidity Facility has been established for the tender agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January and April thereafter until the expiration date or the termination date of the Agreements. For the past fiscal year the percentage was 0.22%, but with the new long-term agreement that became effective on July 11, 2005, the percentage will be 0.25% unless the bond ratings change.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Formula Rate (Base Rate equal to the higher of the Prime Rate for such day or the sum of 0.50% plus the Federal Funds Rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July and October) for each period in which Bank Bonds are outstanding. At June 30, 2005, there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take out provision, in case the remarketing agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the Hospitals to redeem bank bonds in equal quarterly installments, on the first business day of January, April, July and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding $106,000,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $24,848,616 a year for five years under the installment loan agreement assuming a 6.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2008, October 11, 2011, or October 11, 2014 by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of Liquidity Provider.

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

On February 13, 2003, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63,770,000 (2003A) and $34,245,000 (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund $88,325,000 of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

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

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals and Bank of America, N.A. (Series 2003A) or Wachovia Bank, N.A. (Series 2003B) a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require a facility fee equal to 0.22% for Series 2003A (previously 0.20% under the agreement which expired July 1, 2005) and .22% for Series 2003B of the available commitment, payable quarterly in advance, beginning on February 13, 2003, and on each February 1, May 1, August 1, and November 1 thereafter until the expiration date or the termination date of the Agreements.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate (for Series 2003A, the rate equals the London Interbank Offered Rate (LIBOR) plus 2.50% for the first 90 days and then equals LIBOR plus 4.00%; for Series 2003B, the rate equals Prime Rate for the first 90 days and then equals Prime plus 1.00%) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each month for each period in which Bank Bonds are outstanding. At June 30, 2005, there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take out provision, in case the remarketing agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals are required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A agreement allows the Hospitals to redeem bank bonds in twelve equal quarterly installments beginning on the first February 1, May 1, August 1 or November 1 that occurs at least 90 days following the applicable purchase date of the Bank Bond. If the take out agreement was to be exercised because the entire outstanding $63,135,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $23,638,756 a year for three years under the installment loan agreement assuming a 7.34% interest rate (LIBOR plus 4%). The Series 2003B agreement allows the Hospitals to redeem bank bonds in 36 equal monthly installments, on the first business day of each calendar month after the loan date. Payments commence with the first business day of any such month that is at least 120 days following the applicable purchase date of the Bank Bond. If the take out agreement were to be exercised because the entire outstanding $33,910,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $12,611,076 a year for three years under the installment loan agreement assuming a 7.25% interest rate (Prime plus 1%).

The current expiration date of the Series 2003A Agreement is July 1, 2008 and July 31, 2006 for the Series 2003B Agreement. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider.

E. Interest Rate and Basis Swaps

Primary Government

Governmental Activities

Objective. As a means to lower its borrowing costs and increase its savings, when compared to fixed-rate refunding bonds at the time of issuance in December 2002, the State entered into two interest rate swaps in connection with its $499,870,000 Variable Rate General Obligation Refunding Bonds, Series 2002B-F. The intention of the swap agreements was to effectively change the State's interest rate on the bonds to a synthetic fixed rate of 3.283% (Swap 1) and 3.089% (Swap 2). For comparison, the State sold fixed rate bonds on the same day as the swaps, with the same final maturity, at an interest rate of 4.452%.

In June 2003, the State entered into a third interest rate swap agreement (Swap 3) to lower its borrowing costs and reduce its exposure to variable interest rates in connection with $355,000,000 Variable Rate Public Improvement Bonds, Series 2002 D, E, F, and G. Effective July 1, 2003, the intention of this third swap agreement was to effectively change the interest rate on the bonds to a synthetic fixed rate of 1.06% (Swap 3) for a period of two years.

In March 2005, the State entered into basis rate swap agreements and related swaptions with three separate counterparties to lower its borrowing costs when compared to fixed rate refunding bonds. The swaption component is disclosed and valued in a separate note (see Note 7F). The bonds associated with basis swaps were as follows (dollars in thousands).

Bonds Associated with Basis Swaps	Principal Amount	Average Coupon	Call Date
Public Improvement, Series 2003A	$ 171,000	4.89%	3/1/2013
Public Improvement, Series 2003B	169,955	4.87%	4/1/2013
Public Improvement, Series 2004A	335,000	4.86%	3/1/2014
Total	$ 675,955		

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

Terms - Swap 3. This swap began July 1, 2003, with a notional amount of $355,000,000, which matches the bonds outstanding and ended on July 1, 2005. Under Swap 3, the State paid the counterparty a fixed payment of 1.06% and received a variable payment at the BMA.

Terms - 2005 Basis Swaps. The 2005 basis swap agreements were entered into on March 9, 2005 with an effective date of March 30, 2005. The related bonds have serial maturities with Series 2003A having a final maturity on March 1, 2026; 2003B and 2004A have a final maturity on April 1, 2023 and March 1, 2023 respectively. The basis swap agreements mature on March 1, 2026. The swaps combined notional amount of $675,955,000 matches the $675,955,000 fixed rate bonds. Under the terms of the basis rate swap and swaption agreement, the State will pay the BMA to the counterparties and will receive 70% of LIBOR plus a fixed spread of 69 basis points (41 attributable to basis swap and 28 basis points for the swaption).

Fair value. Because interest rates have declined since execution of swaps 1 and 2, the swaps have fair values of negative $10,867,108 (Swap 1) and negative $7,412,974 (Swap 2) at June 30, 2005. Swap 3, which ended July 1, 2005, had a positive fair value of $709,319 at June 30, 2005. The swaps' negative fair value may be countered by a reduction in total interest payments required under a potential refunding. The mark-to-market valuations were established by market quotations from the counterparties, representing estimates of the amounts that would be paid for replacement transactions. The 2005 basis rate swaps had valuations at June 30 of: $7,386,176 (Counterparty 1), $4,768,564 (Counterparty 2), and $3,052,694 (Counterparty 3). The 2005 basis swaps were also valued by the mark-to-market method described above.

Credit risk. As of June 30, 2005, the swaps did not expose the State to credit risk because the swaps had a negative fair value, in aggregate. However, should interest rates change and the aggregate fair value of the swaps become positive, the State would be exposed to credit risk in the amount of the derivatives' aggregate fair value. The current counterparty ratings for each swap are presented in the table below:

Swap Counterparty	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Swap 1	Aa1	AA	AA-
Swap 2	Aaa	AA+	-
Swap 3	Aa1	AA-	AA+
Basis Swap Counterparty 1	Aa2	AA-	AA-
Basis Swap Counterparty 2	Aa3	A+	AA-
Basis Swap Counterparty 3	Aaa	AAA	-

To mitigate the potential for credit risk, if the counterparty's credit quality falls to a specified rating, the counterparty will be required to collateralize a portion (up to 100%) of the fair value. For Swap 1, if the counterparty's credit quality falls to A1 as determined by Moody's Investors Service (Moody's) or A+ as determined by either Standard & Poor's (S&P) or Fitch Ratings (Fitch) and their exposure exceeds $5,000,000, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 2, if the credit quality falls to Aa1 (Moody's) or AA+ (S&P) and their exposure exceeds $10,000,000, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 3 (ended on July 1, 2005) if either party's rating had fallen below A3 (Moody's) or A- (S&P), a credit support agreement would have been negotiated that would have specified the amounts and types of collateral to be posted. For the basis swaps, if the counterparty's credit quality is rated lower than Baa1 (Moody's), BBB+ (S&P), or BBB+ (Fitch) by two of the three rating agencies, then the swap will need to be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State (Fitch credit ratings only apply to counterparty 1). If the counterparty is required to collateralize a portion of the derivative, then the collateral will be posted with a third party custodian or secured party.

An additional termination event occurs if the counterparty fails to maintain: for Swap 1, at least two ratings of at least Baa1 (Moody's) or BBB+ (S&P and Fitch); for Swap 2, at least one rating of at least Baa3 (Moody's) or BBB- (S&P); Swap 3 ended on July 1, 2005. An additional termination event for the basis swaps occurs if counterparty 1 or 3 has one or more issues of rated, unsecured, unenhanced senior debt or long-term deposits outstanding and none of such issues has at least two ratings of at least Baa2 or higher as determined by Moody's, BBB or higher as determined by S&P or BBB or higher as determined by Fitch. For counterparty 2, an additional termination event occurs if it has one or more issues of rated, unsecured, unenhanced senior debt or long-term deposits outstanding and none of such issues has at least two ratings of Baa2 or higher (Moody's), BBB or higher (S&P) or counterparty 2 fails to have a rating on long-term, unsecured, unenhanced senior debt.

Basis risk and termination risk. Swaps 1 and 2 expose the State to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.283% (Swap 1) and 3.089% (Swap 2) and the synthetic rates as of June 30, 2005, of 3.387% (Swap 1) and 3.193% (Swap 2). As of June 30, 2005, the average rate on the State's bonds was 2.242%, whereas 64% of LIBOR was 2.138%. The swaps may be terminated by the State with 15 days notice and the counterparties can only terminate the swaps if the State's credit rating falls below Baa1 (Moody's), or BBB+ (S&P or Fitch) for Swap 1, and on Swap 2, below Baa3 (Moody's) or BBB- (S&P or Fitch), or an Event of Default occurs.

Swap 3: This swap exposed the State to basis risk when the actual rate on the State's bonds varied from BMA. At June 30, 2005 there was no basis risk as the State's actual synthetic rate of 1.022% was lower than the intended synthetic rate of 1.06%.

2005 Basis Swaps: These swaps expose the State to basis risk should the relationship between the two variable indexes BMA and LIBOR converge, which would affect the amount of interest savings realized. The State pays BMA and receives 70% of LIBOR plus 69 basis points (28 basis points relate to swaptions) on the notional amounts by counterparty. As of June 30, 2005, there was no basis risk as the State was paying BMA equal to 2.28% and receiving 3.028% (70% LIBOR (3.34% plus 69 basis points). The basis swaps and swaptions may be optionally terminated by the State with two days notice for counterparties 1 and 2 or with five days notice for counterparty 3. The counterparties can only terminate if the State, at any time during the term of the swap transaction, fails to maintain by at least two rating agencies, ratings of at least Baa2 or higher as determined by Moody's, BBB or higher as determined by S&P or BBB or higher by Fitch (Fitch does not apply to counterparty 2).

Market-access risk/Rollover-risk. Swap 1 and Swap 2 are for the term of the bonds and therefore there is no market-access risk or rollover risk. Swap 3 matured on July 1, 2005, at which time the State was exposed to market-access and rollover risk since the underlying debt returned to variable rate. The 2005 basis rate swaps terminate at approximately the same time as the associated serial bonds mature (March 1, 2026; March 1, 2023; and April 1, 2023) and thus no market-access or rollover risk exists.

Business-type Activities

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

Terms. The swap agreement was with Bank of America, N.A. based on a notional amount of $9,905,000 to mature on September 1, 2025. The swap's notional amount of $9,905,000 matches the $9,905,000 variable-rate bonds. Under the swap, the State pays a fixed payment of 4.21% to Bank of America, N.A. and receives a variable payment of 65% of the LIBOR (LIBOR was 3.34% at June 30, 2005). On the other hand, the bond's variable-rate coupons (2.70% at June 30, 2005) are closely associated with the variable BMA, which was 2.28% as of June 30, 2005.

Fair value. Because interest rates have declined since execution of the swap, the swap has a fair value (the State would have to pay the counterparty if the State terminated the swap) of negative $700,284 (Bank of America, N.A.) as of June 30, 2005. The swap's negative fair value if terminated may be countered by a reduction in total interest payments required under a new swap creating a lower synthetic fixed rate. Because the coupons on the State's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The mark-to-market valuations were established by market quotations from the counterparty representing mid-market or average estimates/quotes of the amounts that would be paid for replacement transactions (having the effect of preserving the economic benefit to the party).

Credit risk. As of June 30, 2005, the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Basis risk and termination risk. The Swap exposes the State to basis risk (including effects of any reduction in marginal tax rates) should the relationship between LIBOR and BMA converge, changing the synthetic rate to the State on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 4.21 % and the actual synthetic rate as of June 30, 2005 of 4.739% (2.039 % + 2.70 %) reflecting a Bond Rate/LIBOR relationship of 48.43% compared to 65% of LIBOR the State is receiving (as of June 30). The swap may be terminated by either party if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Town would be liable to the counterparty for that amount.

Component Units

University of North Carolina System

University of North Carolina at Chapel Hill

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

Terms. Under this amended agreement, Lehman Brothers pays the University interest on the notional amount based on the BMA on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24%. The notional amount of the swap reduces annually in conjunction with the 2001B Bonds; the reductions began in November 2002 and end in November 2025. The swap agreement matures November 1, 2025. As of June 30, 2005, rates were as follows:

	Terms	Rates
Fixed payment to Lehman	Fixed	5.24%
Variable payment from Lehman	BMA	2.13%
Net interest rate swap payments		3.11%
Variable rate bond coupon payments		2.43%
Synthetic interest rate on bonds		5.54%

Fair value. As of June 30, 2005, the swap had a fair value of negative $4,604,713. The fair value was developed by Lehman Brothers. Their method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2005, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. Should the swap have a positive fair value of more than $1,000,000, at that point Lehman would be required to collateralize 103% of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A1 by Moody's, A by S&P, and A+ by Fitch.

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

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

North Carolina State University

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

Terms, fair values, and credit risk. The University's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2005 were as follows (dollars in thousands).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating Moody's/S&P/Fitch
Centennial Campus 1999A	$ 9,000	10/1/1999	4.574%	67% of LIBOR	$(1,075)	12/01/2019	A1 / A+ / A+
General Revenue 2003B	24,655	6/20/2003	3.54%	BMA[1]	(572)	10/01/2027	Aa1 / AA /AA-
General Revenue 2003B	20,710	6/20/2003	1.19%	BMA	—	7/1/2005[2]	Aa1 / AA /AA-
Total	$54,365				$(1,647)		

[1] Variable rate received is the BMA from June 20, 2003 to July 1, 2006; thereafter, the variable rate received will be 75% of LIBOR.
[2] Counterparty had the option to extend the swap to July 1, 2007, which was not exercised.

Because rates have declined since the effective dates of the swaps, both the 1999A and 2003B swaps have a negative fair value as of June 30, 2005. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2005.

As of June 30, 2005, the University was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the University would be exposed to credit risk in the amount of the derivatives' fair value. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. Of the three agreements entered into by the University, two swaps, approximating 83% of the notional amount of the swaps outstanding, are held with one counterparty. All the counterparties are rated A1 or better.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than BMA. Should the relationship between LIBOR and BMA move to convergence, the expected cost savings may not be realized. As of June 30, 2005, the BMA rate was 2.28%, whereas 67% of LIBOR was 2.24%.

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

North Carolina Central University

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Bonds ($21,475,000 Variable Rate Revenue Demand Bonds, Series 2003A). The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the NCCU Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds.

Objective. As a means to lower its borrowing costs and increase its savings, when compared against fixed-rate refunding bonds at the time of issuance in October 2003, effective March 24, 2004, the Foundation entered into two interest rate swaps with Wachovia Bank, N.A., in connection with its $21,475,000 Variable Rate Revenue Demand Bonds, Series 2003A. The intention of the swap agreements was to effectively change the interest rate on the bonds to a synthetic fixed rate of 3.515% (Swap 1) and 2.71% (Swap 2).

Terms. The bonds and the related swap agreements mature on October 1, 2024, (Swap 1) and April 1, 2009, (Swap 2) and the combined swaps' notional amount of $17,180,000 hedges 80% of the $21,475,000 variable-rate bonds. Starting in fiscal year 2006, the combined notional value of the swaps and the combined principal amount of the associated debt decline. Under the swaps, the Foundation pays Wachovia Bank, N.A. a fixed rate of 3.515% (Swap 1) and 2.71% (Swap 2) and receives a variable rate at 70% and 100% of LIBOR and BMA, respectively. The bonds' variable-rate coupons are closely associated with the BMA.

Fair value. As of June 30, 2005, Swap 1 had a negative fair value of $388,718 and Swap 2 had a positive fair value of $100,927. The positive fair value of Swap 2 may be countered by an increase in total interest payments required under the variable rate bonds, creating a higher synthetic interest rate. Because the coupons on the Foundation's variable-rate bond are adjusted every seven days to changing interest rates, the bonds do not have a corresponding fair value increase. The mark-to-market valuations were established by market quotations from Wachovia Bank, N.A. representing estimates of the amounts that would be paid upon terminating the transactions.

Credit risk. As of June 30, 2005, the Foundation was exposed to credit risk because the swaps had a negative fair value in aggregate. However, should interest rates change and the aggregate fair value of the swaps become positive, the foundation would be exposed to credit risk in the amount of the derivatives' aggregate fair value. Swap 1 and Swap 2's counterparty (Wachovia Bank, N.A.) was rated Aa2 by Moody's, AA- by S&P and AA- by Fitch.

Basis risk and termination risk. Swap 1 exposes the Foundation to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.515% and the actual rate of 3.465% (Swap 1) at June 30, 2005. As of June 30, 2005, the rate on the Foundation's Bonds was 2.29%, whereas 70% of LIBOR was 2.340%. Swap 2 exposes the Foundation to basis risk should the actual rate on the Foundation's Bond vary from the BMA. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 2.71% and the actual rate of 3.525% (Swap 2) at June 30, 2005. As of June 30, 2005, the rate on the Foundation's Bonds was 2.29%, whereas the BMA index was 2.28%. Termination could result in the Foundation being required to make an unanticipated termination payment. The swap agreements are terminated if the Foundation or Wachovia Bank, N.A. fails to perform under the terms of the contract.

Market-access risk/Rollover-risk. Swap 1 and Swap 2 expose the Foundation to market-access and rollover risk when the swaps mature on October 1, 2024 and April 1, 2009 respectively. When Swap 1 and Swap 2 mature, the interest rate on the underlying debt will return to a variable rate.

University of North Carolina Hospitals

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

Terms, fair values, and credit risk. Under this agreement, BOA pays the Hospitals interest on the notional amount based on 67% of the arithmetic mean of the USD-LIBOR-BBA (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pay BOA interest at the fixed rate of 3.48%. No cash was paid or received by the Hospitals upon initiation of the agreement. The notional amount of the swap reduces annually; the reductions began in February 2004 and end in February 2029. The swap agreement terminates February 1, 2029. As of June 30, 2005, rates were as follows:

	Terms	2003A Rates	2003B Rates
Fixed payment to BOA	Fixed	3.48%	3.48%
Variable payment from BOA	LIBOR	2.15%	2.15%
Net interest rate swap payments		1.33%	1.33%
Variable rate bond payments		2.30%	2.26%
Synthetic interest rate on bonds		3.63%	3.59%

The swap agreement has a mark-to-market value of negative $5,753,348 as of June 30, 2005. BOA develops the mark-to-market value. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2005, the Hospitals are not exposed to credit risk since the agreement has a negative market value. In the future, if the interest rates were to change and the market value becomes positive, then the credit risk would be equal to the market value of the swap. BOA's current long-term ratings are AA- by Fitch, Aa1 by Moody's, and AA by S&P. At such time that their ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury obligations, U.S. government agency fixed rate fixed maturity securities, U.S. government agency single class mortgage-backed securities, U.S. Treasury STRIPS and other U.S. government agency mortgage-backed securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company or financial institution organized under the laws of the United States (or any state or a political subdivision thereof).

Basis risk. The Hospitals receive 67% of 1-month LIBOR-BBA Index from BOA and pays a floating rate to its bondholders set by the remarketing agent. The Hospitals incurred basis risk at June 30, 2005, because its bonds traded at a yield above 67% of 1-month LIBOR-BBA Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

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

North Carolina Housing Finance Agency

Objective. The North Carolina Finance Agency (the Agency) has entered into interest rate swaps in connection with its $79.3 million variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swaps was to effectively lower the Agency's interest rate on the long term bonds to a fixed rate.

Terms and fair value. The terms and fair value of the outstanding swaps as of June 30, 2005 were as follows (dollars in thousands).

Series	Counterparty	Notional Amount	Date of Swap	Maturity Date of Swap	Fixed Rate	Fair Values
15	UBS AG	$19,530	5/8/2003	7/1/2032	3.510%	$ 642
16	Bank of America, N.A.	19,735	9/16/2003	7/1/2032	3.810%	1,216
17	Bank of America, N.A.	20,000	12/11/2003	7/1/2033	3.725%	1,397
18	Goldman Sachs Mitsui Marine	20,000	4/20/2004	7/1/2035	3.288%	272
		$79,265				$3,527

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of LIBOR, plus 30 basis points. The bonds' variable-rate coupons are based on the BMA, which was 2.30% as of June 30, 2005.

In total, the swaps have a positive fair value of $3,526,426 as of June 30, 2005. Because the aggregate fair value of the swaps is positive, the Agency is exposed to credit risk. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Basis risk and termination risk. The swaps expose the Agency to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. Series 15 swap may be terminated if the counterparty's credit rating falls below A3 as issued by Moody's or A- as issued by Fitch or S&P. For series 16, 17 and 18, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for S&P. Series 16, 17 and 18 swaps may be terminated if the counterparty's rating falls below Baa as issued by Moody's or BBB as issued by S&P.

F. Swaptions

Objective. As a means of lowering its borrowing costs on the existing bonds in the table below and increasing its savings when compared to fixed rate refunding bonds, the State entered into basis swap and swaption contracts with three different financial institutions. Swaptions give the purchaser the right, but not the obligation, to enter into an interest rate swap on a specified future date. These swaptions and the related basis rate swaps disclosed previously were entered into as an alternative to a synthetic fixed rate refunding. This swaption alternative provides an annuity to the State (69 basis points total – 28 for the swaptions). The swaptions give each counterparty the option to require the State to enter into pay-fixed, receive-variable interest rate swaps at the various call dates. If the swaptions are exercised, the State would then expect to issue variable-rate refunding bonds sufficient to retire the related issue.

	Principal or Notional Amount (dollars in thousands)				
Bond Series	Counterparty 1	Counterparty 2	Counterparty 3	Series Total	Call Date / Swaption Exercise Date
Public Improvement Bonds, Series 2003A	$ 85,500	$ 51,300	$ 34,200	$ 171,000	3/1/2013
Public Improvement Bonds, Series 2003B	84,977	50,987	33,991	169,955	4/1/2013
Public Improvement Bonds, Series 2004A	167,500	100,500	67,000	335,000	3/1/2014
Total	$ 337,977	$ 202,787	$ 135,191	$ 675,955	

Terms. The swaption agreements were entered into on March 9, 2005 and mature March 1, 2026. The swaption annuity was based on the total notional amount of $675,955,000 and is tied to the respective bond issues noted above. The counterparties have the right to exercise the swaption agreements 90 days prior to the call date for each series. If exercised, the State will pay the counterparties a fixed rate, and the counterparties will pay the State a variable rate (BMA) based on a declining notional amount that matches the amortization of the associated bonds by series. If the swaptions are exercised, the State intends to issue variable rate bonds in a principal amount to retire the associated bond series.

	Based on Respective Notional Amounts			
Counterparty	Swaption Annuity Payment Received	Fixed Rate Paid by the State	Variable Rate Received by the State	Counterparty Credit Rating Moody's/S&P
Counterparty 1	28 Basis Points	4.80%	BMA	Aa2/AA-
Counterparty 2	28 Basis Points	4.80%	BMA	Aa3/A+
Counterparty 3	28 Basis Points	4.80%	BMA	Aaa/AAA

Fair value. As of June 30, 2005, the swaptions had fair values of negative $16,720,827 (Counterparty 1), negative $9,926,784 (Counterparty 2) and negative $6,334,775 (Counterparty 3), which were estimated using the mark to market method. This method of valuation was established by market quotations from the counterparties representing estimates of the amounts that would be paid for replacement transactions. These values reflect a slight decline in interest rates between March 9, 2005, and June 30, 2005, however, only the State has the option to terminate the swaptions. A replacement transaction would generate net present value savings equal to these fair value amounts.

Market-access risk. A small risk exists that the State, for some unforeseen reason, may be unable to issue the variable rate bonds. If the swaptions are exercised and refunding bonds are not issued, the series 2003 A and B and 2004A bonds would not be refunded, the basis rate swaps would continue, and the State would have to pay a termination payment on the swaptions to the counterparties. Termination values will be based on the net present value difference between BMA and 4.80% fixed rate.

G. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). The debt service requirements of variable rate debt and net swap payments are based on rates as of June 30, 2005 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

Primary Government

	Governmental Activities						
	General Obligation Bonds			Certificates of Participation		Lease-Purchase Revenue Bonds	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2006	$ 329,720	$ 253,321	$ 4,529	$ 21,110	$ 18,990	$ 10,000	$ 12,140
2007	325,915	238,013	5,203	21,420	21,648	10,000	11,712
2008	324,515	223,588	5,203	21,760	20,824	10,000	11,374
2009	321,120	208,217	5,203	22,110	19,925	10,000	11,041
2010	321,000	191,391	5,203	22,470	18,963	10,000	10,615
2011-2015	1,615,230	723,845	23,818	119,030	79,058	50,000	46,067
2016-2020	1,586,680	377,159	9,937	133,610	48,469	64,000	33,574
2021-2025	824,855	107,778	—	113,660	15,146	101,045	10,182
2026-2030	49,500	3,218	—	—	—	—	—
Total	$ 5,698,535	$ 2,326,530	$ 59,096	$ 475,170	$ 243,023	$ 265,045	$ 146,705

	Governmental Activities		Business-type Activities				
	Notes Payable		Revenue Bonds			Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2006	$ 6,488	$ 569	$ 270	$ 239	$ 134	$ 112	$ —
2007	20,755	2,563	280	232	130	112	—
2008	5,010	158	295	224	125	112	—
2009	1,754	31	305	216	121	112	—
2010	—	—	320	207	116	112	—
2011-2015	—	—	1,830	894	500	561	—
2016-2020	—	—	2,275	615	344	448	—
2021-2025	—	—	2,845	267	150	—	—
2026-2030	—	—	650	4	2	—	—
Total	$ 34,007	$ 3,321	$ 9,070	$ 2,898	$ 1,622	$ 1,569	$ —

Component Units

Fiscal Year Ending June 30	University of North Carolina System — Revenue Bonds — Principal	Revenue Bonds — Interest	Revenue Bonds — Interest Rate Swaps, Net	Certificates of Participation — Principal	Certificates of Participation — Interest	Notes Payable — Principal	Notes Payable — Interest
2006	$ 68,595	$ 67,839	$ 2,588	$ 1,395	$ 540	$ 2,638	$ 2,600
2007	72,384	65,545	2,562	1,755	863	34,831	1,565
2008	74,545	62,074	2,536	1,810	1,182	1,039	978
2009	76,870	58,736	2,494	1,870	1,128	775	929
2010	77,545	55,204	2,441	1,930	1,064	465	886
2011-2015	400,380	229,145	11,638	8,920	4,100	492	4,257
2016-2020	383,499	150,523	9,527	2,335	2,957	—	4,235
2021-2025	331,565	79,759	5,936	2,905	2,384	—	4,235
2026-2030	194,440	26,843	1,117	3,640	1,646	—	4,235
2031-2035	55,060	4,432	—	4,625	664	29,500	4,133
Total	$ 1,734,883	$ 800,100	$ 40,839	$ 31,185	$ 16,528	$ 69,740	$ 28,053

Fiscal Year Ending June 30	Revenue Bonds — North Carolina Housing Finance Agency — Principal	North Carolina Housing Finance Agency — Interest	North Carolina Housing Finance Agency — Interest Rate Swaps, Net	State Education Assistance Authority — Principal	State Education Assistance Authority — Interest
2006	$ 31,035	$ 64,804	$ 917	$ 1,000	$ 60,912
2007	33,240	63,527	897	—	60,912
2008	34,950	62,105	876	—	60,912
2009	36,810	60,631	857	—	60,912
2010	38,715	59,032	839	—	60,912
2011-2015	217,900	260,259	3,933	310,012	281,614
2016-2020	216,780	201,913	3,448	423,900	174,971
2021-2025	216,215	154,242	2,807	—	171,804
2026-2030	326,910	98,189	1,577	270,000	153,324
2031-2035	155,215	17,911	274	916,650	77,533
2036-2040	2,310	856	—	—	—
2041-2045	1,785	177	—	—	—
Total	$ 1,311,865	$ 1,043,646	$ 16,425	$ 1,921,562	$ 1,163,806

H. Bond Defeasances

The State and its component units have defeased certain bonds through advance refundings by placing refunding bond proceeds into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net assets.

Primary Government

On September 29, 2004, the State of North Carolina issued $382,260,000 in General Obligation Refunding Bonds, Series 2004 with an average interest rate of 4.89%. This bond issue was used to advance refund (defease) $388,425,000 of outstanding bonds as follows: 1995A Clean Water Bonds, with an average interest rate of 5.20%; 1997 Capital Improvement Bonds, with an average interest rate of 5.10%; 1997A Public School Building Bonds, with an average interest rate of 5.19%; 1997A Highway Bonds, with an average interest rate of 4.96%; and 1999A Public Improvement Bonds, with an average interest rate of 5.25%. The State reduced its debt service requirements by $20,002,711 over the next 11 years and obtained an economic gain of $14,830,625. At June 30, 2005, the outstanding balances were $60,000,000 for the defeased 1997 Capital Improvement Bonds, $159,500,000 for the defeased 1997A Public School Building Bonds, $99,925,000 for the defeased 1997A Highway Bonds, and $57,000,000 for the defeased 1999A Public Improvement Bonds.

On January 12, 2005, the State of North Carolina issued $106,895,000 in General Obligation Refunding Bonds, Series 2005A with an average interest rate of 4.67%. This bond issue was used to advance refund $108,000,000 of outstanding 2000A Public Improvement Bonds, with an average interest rate of 5.05%. The State reduced its debt service requirements by $5,982,273 over the next 12 years and obtained an economic gain of $4,789,787. At June 30, 2005, the outstanding balance was $108,000,000 for the defeased Public Improvement Bonds, Series 2000A.

On June 29, 2005, the State of North Carolina issued $470,510,000 in General Obligation Refunding Bonds, Series 2005B with an average interest rate of 5.0%. This bond issue was used to advance refund $490,500,000 of outstanding Public School Building Bonds ($262,500,000 of Series 1998A and $228,000,000 of Series 1999, with an average interest rate of 4.68%). The State reduced its debt service requirements by $21,012,678 over the next 13 years and obtained an economic gain of $16,207,380. At June 30, 2005, the outstanding balance was $262,500,000 for the defeased Public School Building Bonds, Series 1998A and $228,000,000 for the defeased Public School Building Bonds, Series 1999.

Component Units

University of North Carolina System

North Carolina State University

On February 10, 2005, the University issued $81,615,000 in North Carolina State University General Revenue Bonds, Series 2005A with an average interest rate of 4.12%. The refunding component of this bond issue was used to advance refund $7,090,000 of outstanding North Carolina State University Revenue Bonds (Centennial Campus Projects), Series 1997B, with a combined average interest rate of 5.13%. The University reduced its debt service requirements by $307,435 over the next 13 years and obtained an economic gain of $406,928. At June 30, 2005, the outstanding balance was $7,090,000 for the defeased North Carolina State University Revenue Bonds (Centennial Campus Projects), Series 1997B.

University of North Carolina at Greensboro

On April 14, 2005, the University issued $22,235,000 in 2005A General Obligation Bonds with an average interest rate of 4.73%. The refunding component of this bond issue was used to advance refund $24,080,000 of outstanding 1997B Student Facilities Revenue Bonds, 1997C Student Facilities Revenue Bonds, 1997D Housing and Dining Revenue Bonds, and 2000G Housing and Dining Revenue Bonds, with a combined average interest rate of 5.42%. The University reduced its debt service requirements by $1,295,853 over the next 21 years and obtained an economic gain of $896,763. At June 30, 2005, the outstanding balances were $3,130,000 for the defeased 1997B Student Facilities Revenue Bonds, $10,090,000 for the defeased 1997C Student Facilities Revenue Bonds, $5,000,000 for the defeased 1997D Housing and Dining Revenue Bonds, and $5,860,000 for the defeased 2000G Housing and Dining Revenue Bonds.

University of North Carolina at Charlotte

On April 14, 2005, the University issued $11,855,000 in The University of North Carolina Pooled Revenue Bonds, Series 2005A, with an average interest rate of 5.02%. The refunding component of this bond issue was used to advance refund $11,925,000 of the remaining portion of the Student Activity Center Revenue Bonds, with a combined average annual interest rate of 5.47%. The University reduced its debt service requirements by $1,093,890 over the next 16 years and obtained an economic gain of $790,032.

University of North Carolina at Asheville

On April 1, 2005, the University issued $7,575,000 in General Revenue Bonds, Series 2005A (part of the UNC Pool Issue) with an average interest rate of 4.88% (part used to refund Series C) and 4.11% (part used to refund Series D). The refunding component of this bond issue was used to advance refund $5,860,000 of outstanding Series C bonds (average interest rate of 5.14%) and $1,530,000 of outstanding Series D bonds (average interest rate of 4.82%). For the Series C Bonds, the University reduced its debt service requirements by $185,831 over the next 19 years and obtained a net economic gain of $130,792. For the Series D Bonds, the University reduced its debt service requirements by $27,836 and obtained a net economic gain of $19,751. At June 30, 2005, the outstanding balance was $7,390,000 for the defeased UNC Asheville Housing/Dining System Series C and D bonds.

University of North Carolina at Wilmington

On April 14, 2005 the University issued $12,630,000 in General Revenue Bond Series 2005A with an average interest rate of 4.6%. This bond issue was used to advance refund $12,630,000 of outstanding Dorm and Dining Hall Series I and the Recreation Bonds 1998, with a combined average interest rate of 4.9%. The University reduced its debt service requirements by $240,623 over the next 14 years and obtained an economic gain of $320,225. At June 30, 2005, the outstanding balance was $550,000 for the defeased Dorm and Dining Hall Series I bonds.

Appalachian State University

On April 20, 2005, the University issued $50,915,000 in Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005 with an average interest rate of 4.54%. The refunding component of this bond issue was used to advance refund $9,540,000 of outstanding Appalachian State University Parking System Revenue Bonds, Series 2000 and $12,340,000 of Housing and Student Center System Revenue Bonds, Series 2000, with a combined average interest rate of 5.61%. The University reduced its debt service requirements by $1,254,751 over the next 25 years and obtained an economic gain of $834,633. At June 30, 2005, the outstanding balances were $9,540,000 for the defeased Appalachian State University Parking System Revenue Bonds and $12,340,000 for the defeased Appalachian State Housing and Student Center System Revenue Bonds, Series 2000.

University of North Carolina Hospitals

On May 25, 2005, the Hospitals issued $30,540,000 in University of North Carolina Hospitals Revenue Refunding Bonds, Series 2005A with an average interest rate of 4.97%. This bond issue was used to advance refund $31,090,000 of outstanding University of North Carolina Hospitals Revenue Bonds, Series 1996, with a combined average interest rate of 5.29%. The Hospitals reduced its debt service requirements by $1,871,194 over the next 10 years and obtained an economic gain of $1,167,053. At June 30, 2005, the outstanding balance was $31,090,000 for the defeased University of North Carolina Hospitals Revenue Bonds, Series 1996 bonds.

<u>Prior Year Defeasances</u>

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net assets. At June 30, 2005, the outstanding balance of prior year defeased bonds was $435.9 million for the primary government and $128.3 million for component units.

I. Bond Redemptions

The 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, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. In addition, various bond issues are redeemable at the option of the Agency with premiums ranging up to 2% for up to twelve years after the date of issue.

NOTE 8: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for 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 incurred. For the year ended June 30, 2005, total operating lease expenditures were $62.8 million for Primary Government, $30.4 million for the University of North Carolina System, and $5.7 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2005 are as follows (dollars in thousands):

	Operating Leases			Capital Leases		
		Component Units			Component Units	
Fiscal Year	*Primary Government*	University of North Carolina System	Community Colleges	*Governmental Activities*	University of North Carolina System	Community Colleges
2006	$ 52,698	$ 21,673	$ 3,581	$ 257	$ 3,340	$ 680
2007	36,782	15,800	2,409	120	2,621	633
2008	27,370	10,561	1,685	41	2,422	516
2009	15,064	6,227	1,116	—	2,521	405
2010	8,452	3,313	796	—	2,046	354
2011 - 2015	16,385	15,669	1,768	—	8,465	872
2016 - 2020	11,732	9,834	—	—	7,702	—
2021 - 2025	11,732	9,816	—	—	7,270	—
2026 - 2030	11,732	9,809	—	—	11,788	—
2031 - 2035	8,082	—	—	—	—	—
2036 - 2040	8,082	—	—	—	—	—
2041 - 2045	8,082	—	—	—	—	—
2046 - 2050	8,082	—	—	—	—	—
2051 - 2055	3,233	—	—	—	—	—
Total Future Minimum Lease Payments.........	$ 227,508	$ 102,702	$ 11,355	418	48,175	3,460
Less: Amounts Representing Interest				88	14,740	630
Present Value of Future Minimum Lease Payments				$ 330	$ 33,435	$ 2,830

At June 30, 2005, capital assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	*Component Units*	
	Governmental Activities	University of North Carolina System	Community Colleges
Buildings..	$ —	$ 30,399	$ 1,497
Machinery and Equipment................	302	6,057	2,004
Other..	—	1,544	154
Less: Accumulated Depreciation.....	—	(3,854)	(88)
Total Capital Assets........................	$ 302	$ 34,146	$ 3,567

NOTE 9: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $36.16 million due to fiduciary funds is composed of $10.45 million related to local sales taxes collected in the general fund and due to the agency fund, as well as $25.71 million related to retirement contributions payable to retirement systems at year end. The other balances due to fiduciary funds are related to balances held on behalf of patients at the State's mental health facilities.

The Teachers' and State Employees' Retirement System balance of $2.52 million due from fiduciary funds represents administrative costs paid by the Teachers' System that are allocable to some of the State's other retirement systems at fiscal year end. These systems reflect their unpaid balances as due to fiduciary funds. The other balances due from fiduciary funds are primarily for services provided to pension and other employee benefit trust funds. Amounts payable to or receivable from fiduciary funds are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net assets.

Due To/From Other Funds

Balances due to/from other funds at June 30, 2005, consisted of the following (dollars in thousands):

	Due From Other Funds							
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total
Due To Other Funds								
General Fund	$ —	$ 3,438	$ —	$ 4,380	$ —	$ 1	$ 11,084	$ 18,903
Highway Fund	—	—	264	3,161	—	—	1,914	5,339
Highway Trust Fund	—	82,113	—	—	—	—	—	82,113
Other Governmental Funds	72	—	—	2,068	122	—	919	3,181
EPA Revolving Loan Fund	—	—	—	—	—	—	9	9
Nonmajor Enterprise Funds	—	—	—	4	—	—	31	35
Internal Service Funds	2	—	—	5	—	—	1,563	1,570
Total	$ 74	$ 85,551	$ 264	$ 9,618	$ 122	$ 1	$ 15,520	$ 111,150

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

Advances To/From Other Funds

The balance of $800 thousand advanced to the Highway Fund from the Highway Trust Fund resulted from a loan made to the Division of Motor Vehicles to provide funds to pay the charges for telecommunications services associated with the emissions inspection and maintenance program that accrued during the 2001 calendar year. This advance will be repaid with interest at a rate equal to the average annual yield that the State Treasurer obtains on investment of funds in the Highway Trust Fund.

B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2005 consisted of the following (dollars in thousands):

	Transfers Out								
Transfers In	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Internal Service Funds	Total
General Fund	$ —	$ 65,570	$ 369,296	$ 302,504	$ 400	$ 150	$ 862	$ 60	$ 738,842
Highway Fund	30,906	—	191,254	—	—	—	—	—	222,160
Other Governmental Funds	438,484	160,019	—	185,141	—	3	3,966	5,833	793,446
EPA Revolving Loan Fund	57	—	—	13,542	—	—	—	—	13,599
Other Enterprise Funds	880	—	—	2,522	—	—	—	—	3,402
Internal Service Funds	106	—	—	520	—	—	—	3	629
Total	$ 470,433	$ 225,589	$ 560,550	$ 504,229	$ 400	$ 153	$ 4,828	$ 5,896	$ 1,772,078

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

The Highway Trust Fund was created in 1989 to accumulate certain taxes and fees related to highway and vehicle use. Each year legislation mandates that a portion of these revenues be transferred to the Highway Fund for transportation programs and administration of the Highway Trust Fund. The total transfer for this fiscal year was $191.3 million.

Also when the Highway Trust Fund was created, the revenue from the sales tax on motor vehicles was transferred from the General Fund to the Highway Trust Fund. To offset a portion of this revenue loss in the General Fund, the Highway Trust Fund is required to transfer funds to the General Fund each year. The total transfer for this fiscal year was $243.8 million. In addition, the General Assembly enacted legislation in Senate Bill 622 [Session Law 2005-276] to forgive the advance of $125 million from the Highway Trust Fund to the General Fund made during the 2002-03 fiscal year. This was recorded as a transfer from the Highway Trust Fund to the General Fund.

In order to meet the constitutional requirement for a balanced budget for the General Fund, the General Assembly identified resources to meet spending requirements in the past three legislative sessions with Senate Bill 1115 [Session Law 2002-126], House Bill 397 [Session Law 2003-284] and House Bill 1414 [Session Law 2004-124]. Among these resources were transfers from various funds to the General Fund including $88.4 million from other governmental funds.

NOTE 10: FUND BALANCE RESERVES

Reserved Fund Balance. The State's reserved fund balances represent those portions of the fund balances that are either (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource for current appropriation or expenditure, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. The reserved fund balances at June 30, 2005, are (dollars in thousands):

	Governmental Funds				
	General Fund	*Highway Fund*	*Highway Trust Fund*	*Other Governmental Funds*	*Total Governmental Funds*
Specific encumbrances	$ 46,975	$ 7,845	$ —	$ —	$ 54,820
Inventories	59,987	3,886	—	33,065	96,938
Investments	47	—	—	14	61
Wildlife endowment	—	—	—	55,152	55,152
Notes receivable	5,024	1,051	113	314,998	321,186
Compensated absences	—	35,211	—	—	35,211
Prepaid items	—	—	—	170	170
Continuing programs	49,926	—	—	—	49,926
Capital projects	—	—	—	165,621	165,621
Advance to component unit	—	—	58	—	58
Loan and grant commitments	—	3,099	—	254,714	257,813
Advance to other funds	—	—	800	—	800
Other purposes	10,674	2,354	—	33,815	46,843
Total reserved fund balance	$ 172,633	$ 53,446	$ 971	$ 857,549	$ 1,084,599

NOTE 11: RETIREMENT PLANS

The State reports ten retirement plans as pension trust funds. Section A of this note describes the seven defined benefit public employee retirement plans and one defined contribution plan administered by the State. The remaining plans, described in Note 12, are defined contribution plans administered by a third party under the auspices of the State. The State may or may not make supplementary contributions to these plans. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Note 15 and in the *Required Supplementary Information* section of this *CAFR*. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

A. Plan Descriptions and Contribution Information

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

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, and local boards of education not in the reporting entity. Membership is comprised of employees of state agencies and institutions, local boards of education, universities and community colleges and certain proprietary component units. At June 30, 2005, the number of participating local boards of education and component unit employers was 194 as shown below:

Local boards of education	115
Community colleges	58
University of North Carolina System	18
Proprietary component units	3

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially required employer contribution established by legislation. For the period July 1, 2004 through June 30, 2005, the State made the actuarially based required contribution of 2.17% of covered payroll. Benefit and contribution provisions are established by G.S. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

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

2. *CONSOLIDATED JUDICIAL RETIREMENT SYSTEM*

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the period July 1, 2004 through June 30, 2005, the State made the actuarially based required contribution of 12.59% of covered payroll. Benefit and contribution provisions are established by G.S. 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

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

3. *LEGISLATIVE RETIREMENT SYSTEM*

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

The benefit will not be payable while the member is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System or the Local Governmental Employees' Retirement System. Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially based employer contributions. For the period July 1, 2004 through June 30, 2005, there was no actuarially based required contribution and none was made. Benefit and actuarially based contribution provisions are established by G.S. 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly.

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

OTHER STATE ADMINISTERED SYSTEMS

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

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

This plan is a defined benefit pension plan established by the State of North Carolina to provide pension benefits for all eligible firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 2005, there were 1,486 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. *North Carolina 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 also is 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. 127A-40 and may be amended only by the North Carolina General Assembly.

6. *Registers of Deeds' Supplemental Pension Fund*

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is composed of registers who are retired from the Local Governmental Employees' Retirement System or an equivalent local plan and have met the statutory eligibility requirements. At June 30, 2005, there were 100 registers enrolled in the plan with all 100 counties participating. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a register with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The State Treasurer administers the plan and *Section B* of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

Benefits and administrative expenses are funded by investment income and 4.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. Registers do not contribute. The actuarially required contribution and percentage of that contribution actually made is in the *Required Supplementary Information* section of this report. All benefit and contribution provisions are established by G.S. 161-50 and may be amended only by the North Carolina General Assembly.

7. *SHERIFFS' SUPPLEMENTAL PENSION FUND*

This plan is a defined contribution plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2005, there were 76 sheriffs and two beneficiaries enrolled in the plan with all 100 of the State's counties eligible to participate.

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

Receipts collected by each county's Clerk of Superior Court under G.S. 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. Sheriffs do not contribute to the plan. For the year ended June 30, 2005, the Clerks remitted $781,075. All benefit and contribution provisions are established by G.S. 143-166 and may be amended only by the North Carolina General Assembly.

8. *LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM*

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

At June 30, 2005, the number of participating local governments was 920, as shown below:

Cities	426
Counties	100
Special districts	394

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. All employers contribute 5.26% of covered payroll for law enforcement officers and 4.79% for general employees and firemen. In addition, employers with an unfunded liability, which is established when the government initially enters the system, must make additional contributions towards that liability. The State's 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:

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard	Registers of Deeds'	Local Govern-mental
Employee Groups							
Retirees and beneficiaries currently receiving benefits	128,577	420	236	9,194	2,461	72	36,728
Terminated employees entitled to benefits but not yet receiving them	52,580	61	80	151	6,924	0	16,503
Active plan members	311,612	490	169	32,811	8,005	105	121,262
Total	492,769	971	485	42,156	17,390	177	174,493
Date of valuation	*12-31-04*	*12-31-04*	*12-31-04*	*6-30-04*	*12-31-04*	*12-31-04*	*12-31-04*

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

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

INVESTMENTS /SECURITIES LENDING

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The investment balance of each system represents its share of the fair value of the net assets of the various portfolios within the pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 2004 (June 30, 2004, for Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress are presented by system in the *Required Supplementary Information*. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

							Actuarial Assumptions	
Retirement System	Valuation Date	Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Period Open/Closed	Asset Valuation Method	Investment Rate of Return	Projected Salary Increase
Teachers' and State Employees'	12/31/04	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	5.45-12.08%
Consolidated Judicial	12/31/04	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.63-12.58%
Legislative	12/31/04	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/04	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
North Carolina National Guard	12/31/04	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
Registers of Deeds'	12/31/04	Entry age	Level dollar	N/A	Open	5 year smoothed	7.25%	5.45-12.08%
Local Governmental Employees'	12/31/04	Frozen entry age	Level percentage	Various	Closed	5 year smoothed	7.25%	5.45-12.08%

N/A-Not applicable

The valuations for the Teachers' and State Employees' system, Legislative system, and Consolidated Judicial system reflect a 2.0% cost of living increase for retirees in these systems. The Firemen's and Rescue Squad Workers' Fund increases retirement benefits by $2 (from $161 to $163). The National Guard system increases basic benefits from $50 to $75 and total potential benefits from $100 to $150. The Local Governmental Employee's system reflects a 2.5% cost of living increase. All of the benefit enhancements listed in this paragraph reflect legislation enacted by the North Carolina General Assembly effective July 1, 2005.

As of this valuation, the unfunded actuarial accrued liability for the Registers of Deeds' system, when amortized over 40 years is less than zero ($0). This situation, which is not allowable under generally accepted accounting principles, is redefined by the actuary to effectively mean there is no liability to be amortized.

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

CURRENT FISCAL YEAR ASSUMPTIONS

Unless otherwise noted in this footnote or in the required supplementary schedules, the actuarial values, methods and significant assumptions for the current year's required contributions are the same as those presented in the table shown on the prior page. The annual required contributions (ARC) for the fiscal year ended June 30, 2005, 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, 2002, the Legislative system was valued at December 31, 2003, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2003. These valuations used amortization periods of 8 years for Legislative and 9 years for all the other systems. Registers of Deeds' was valued at December 31, 2003, but effectively had no liability to be amortized. The Local Governmental Employees' system is an aggregate of numerous employers, and consequently, has various amortization periods. The rate of investment return and projected salary increases used in these valuations assumed essentially the same increases as in the most current valuations reported on the prior page.

For the fiscal year ended June 30, 2005, retirees in the Local Governmental Employees' system received no cost of living adjustments. The Teachers' and State Employees' system, Legislative Retirement system and the Consolidated Judicial system provided a 1.70% cost of living increase for retirees. The Firemen's and Rescue Squad Workers' Fund increased retirement benefits by $3 (from $158 to $161). All of these benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2004. These enhancements were either reflected as liabilities in the December 31, 2003, valuations, or the systems paid for them through actuarial gains.

D. Annual Pension Cost and Net Pension Obligation

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

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution	$ 6,513	$ —	$ 7,521	$ 1,412
Interest on net pension obligation	105	(2)	53	(19)
Adjustment to annual required contribution	(186)	6	(114)	38
Annual pension cost	6,432	4	7,460	1,431
Less: Contributions made	6,513	—	7,521	1,564
Increase (decrease) in net pension obligation	(81)	4	(61)	(133)
Net pension (asset) obligation beginning of year	1,449	(25)	737	(253)
Net pension (asset) obligation end of year	$ 1,368	$ (21)	$ 676	$ (386)

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 annual required contributions (ARC) the State made to the Teachers' and State Employees' Retirement System (the System), a cost-sharing, multiple-employer plan. Except for (A) below, the State's statutory annual contribution to the System equals its total annual payment to the System and equals the State's pension cost in these financial statements. The State does not make any contributions to the Local Governmental Employees' System; therefore, it has no 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, 2003 through June 30, 2005 (dollars in thousands)

	Teachers' and State Employees'	*Judicial*	*Legislative*	*Firemen's and Rescue Squad*	*North Carolina National Guard*
Primary Government:					
2005	$ 59,021	$ 6,432	$ 4	$ 7,460	$ 1,431
2004 (A)	35,762	5,404	6	6,730	1,043
2003	—	5,870	6	6,778	1,083
Component units:					
Universities:					
2005	$ 31,037				
2004	3,038				
2003	—				
Community Colleges:					
2005	$ 13,037				
2004	1,211				
2003	—				
Proprietary Funds:					
2005	$ 410				
2004	38				
2003	—				
Total Primary Government and Component Units:					
2005	$ 103,505	$ 6,432	$ 4	$ 7,460	$ 1,431
2004	40,049	5,404	6	6,730	1,043
2003	—	5,870	6	6,778	1,083
Percentage of APC Contributed:					
2005		101%	0%	101%	109%
2004		112%	0%	102%	290%
2003		102%	0%	101%	0%
Percentage of ARC Contributed:					
2005	100%				
2004	100%				
2003	No ARC				
Net Pension (Asset) Obligation:					
2005		$ 1,368	$ (21)	$ 676	$ (386)
2004		1,449	(25)	737	(253)
2003		2,068	(31)	863	1,725

(A) - The State's contribution/pension cost for the Teachers' and State Employees' Retirement System equals the actuarially required contribution plus $30 million in additional appropriations mandated by the N.C. General Assembly.

Yearly pension liabilities for the systems are shown in the *Required Supplementary Information* section of this report. Beginning with the accounting transition year of 1997, liabilities were determined in accordance with Governmental Accounting Standards Board Statement No. 27 (GASB 27). As presented here, each system's yearly APC and net pension (asset) obligation were computed retroactively to 1993 in accordance with GASB 27 and contain the cumulative effect of applying that statement.

E. Optional Retirement Plan

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in universities of the UNC System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2005, the Plan had 10,183 participants.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), Valid, Fidelity Investments and Lincoln National Life Insurance Company. Participants' eligibility and contributory requirements are established in G.S. 135-5.1. Participants contribute 6% of compensation and the university contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed $62,416,543 for the 2004-05 fiscal year. Annual covered payroll was $912,522,559 and employer contributions expressed as a percentage of annual covered payroll were 6.84% for the fiscal year ended June 30, 2005. Employee contributions expressed as a percentage of annual covered payroll were 6%, with actual employee contributions of $54,751,353 for the 2004-05 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, 2005, the State and its component units paid $11,809,322 for 888 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each affected state agency or paid from the component unit's operations. These benefits are established in G.S. 143-166.41 and may be amended only by the General Assembly.

NOTE 12: DEFERRED COMPENSATION PLANS

IRC Section 457 Plan – General Statute 143B-426.24 authorized the creation of the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan (the Board). The Board was established as an agency of the State under the Department of Administration to offer the State's permanent employees, university employees, and the employees of certain other component units, a uniform Deferred Compensation Plan (the Plan) in accordance with Internal Revenue Code Section 457. The Plan permits each participating employee to defer a portion of his or her salary until future years by having the funds invested in various instruments that make up the North Carolina Public Employee Deferred Compensation Trust Fund. This fund is held in trust by the Plan for the exclusive benefit of participating employees and their beneficiaries. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the Plan. The Plan is reported in the CAFR as a pension and other employee benefit trust fund. All costs of administering and funding the Plan are the responsibility of the plan participants. The Plan's financial statements are available by contacting the N.C. Department of Administration at 1306 Mail Service Center, Raleigh, NC 24699-1306.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the Plan) in accordance with Internal Revenue Code Section 401(k). All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program are eligible to enroll in the Plan and may contribute up to 20% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. Members of the Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the Plan are the responsibility of the participants.

The Plan is a defined contribution pension plan that is administered by a third party contractor. The administrator prepares financial statements based on the Plan's fiscal year. The audited statements for the year ended December 31, 2004, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan's financial statements are prepared using the accrual basis of accounting. Investments are reported at fair value. Securities and mutual funds are based on published quotations while bank investment contracts are stated at contract value. Notes Receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services administers the Plan, and the Plan's financial statements are available by contacting the N.C. 401(k) Plan, 150 Fayetteville Street Mall, Suite 1340, Raleigh, NC 27601.

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, 2004, 42 state agencies and component units along with 476 local governmental units outside our reporting entity contributed the required 5%. In addition, 3 state agencies and 389 local government employers contributed to the Plan on a voluntary basis.

At December 31, 2004, the Plan disclosed the following investments (at fair value) exceeding 5% of the Plan's net assets (in thousands):

Van Kampen Growth and Equity	$ 585,020
Vanguard Equity Index	582,589
Growth Fund of America	366,466
Fidelity Intermediate Bond Fund	180,713
Van Kampen Equity Income	133,688

In addition, the Plan owned $792,415,680 of Prudential's Stable Value Fund. This investment exceeded 5% of net assets and was disclosed as a related party transaction because of its sponsorship by the Plan's administrator. The Plan's remaining investment risks are described in Note 3. The Plan also reported total member contributions of $187,291,862. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2004, amounted to $135,565,147 for the State, $16,135,338 for universities, and $1,267,854 for the other miscellaneous component units. The required 5% employer's contribution was made by the State for $6,778,257, by universities for $806,766, and by the remaining component units for $63,392. In addition, the State contributed $436,347 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.

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

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

The Comprehensive Major Medical Plan (the 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, 2005, the numbers of participants currently eligible to receive health care as an other postemployment benefit are 51,963 TSERS and DIPNC members (excluding LEA members), 311 CJRS members, 154 LRS members, and 1,106 UEORP members. The health insurance plan is the same as for active employees as described in Note 14, except that the coverage becomes secondary when former employees become eligible for Medicare.

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 Appropriations Bill by the General Assembly. The State, participating component units and LEAs contributed a monthly amount equal to 3.2% of active employees' salaries to the Retiree Health Benefit Fund (the Fund). The Fund pays the full cost of coverage for long-term disability beneficiaries and retirees enrolled in the Plan. For the fiscal year ended June 30, 2005, the Fund paid $2,612 for each Medicare-eligible long-term disability beneficiary and retiree and $3,431 for each non-Medicare-eligible long-term disability beneficiary and retiree. At June 30, 2005, net assets of the Fund available for future other postemployment benefits for eligible beneficiaries were $102,755,660.

For the fiscal year ended June 30, 2005, contributions on behalf of former employees of the reporting entity were made to the Fund as follows (dollars in thousands):

Primary government	$	88,807
University of North Carolina System		74,726
Community Colleges		19,225
Certain participating proprietary component units		604
Total contributions	$	183,362

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

B. Disability Income

As discussed in Note 14, short-term and long-term disability benefits are provided to the eligible members of the Teachers' and State Employees' Retirement System and the University Employees' Optional Retirement Program through the Disability Income Plan of North Carolina (DIPNC). It is reported in this CAFR as a pension and other employee benefit trust fund. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina (Retirement System) or the University Employees' Optional Retirement Program, earned within ninety-six months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

Long-term disability income benefits are advance-funded and actuarially based using the one-year term cost method. Although the DIPNIC operates on a calendar year, disability income benefits are funded by employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2005, the actuary recommended contribution rate was .52% of member compensation. However, the Appropriations Bill required the State, the University of North Carolina System, community colleges, certain participating component units, and LEAs to contribute .445% 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, 2004 (the most recent actuarial valuation date), DIPNC had 3,027 members, excluding LEA members, who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 322,933 active plan participants. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

Actuarial Assumptions for the calendar year ended December 31, 2004:

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%

The required and actual contributions made for the current fiscal year are as follows (dollars in thousands):

Annual required contribution	$	24,803
Actual contribution made by:		
Primary Government	$	12,103
University of North Carolina System		6,365
Community Colleges		2,673
Certain participating component units		84
Total actual contribution made	$	21,225

The basis for estimating the actuarial liabilities for unpaid claims is discussed in Note 14. The market related actuarial value of the assets of DIPNC at December 31, 2004, was $259,916,093 creating an actuarial deficit of $31,277,751. The actual fair value of the assets for DIPNC at December 31, 2004 was $264,646,859. The assets are available for future other postemployment benefits and benefits for eligible active employees.

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

NOTE 14: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

Public School Insurance Fund

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the investment made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in G.S. 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to carry extended coverage against fire and lightning damage to the extent of not less than seventy-five percent (75%) of the current insurable value for each insurable building. The boards also are to insure adequately the equipment and contents of said building. The Fund is financed by premiums collected from the LEAs and the community colleges and interest earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the State Board of Education a full and complete list of all outstanding fire insurance policies. While the said insurance policies remain in effect, the Fund shall act as coinsurer of the properties covered by such insurance. The Fund currently insures 105 out of 115 LEAs and 29 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	
	2005	2004
Unpaid claims at beginning of year	$ 3,947	$ 1,713
Incurred claims:		
Provision for insured events of the current year	3,239	13,365
Increases (decreases) in provision for insured events of prior years	(417)	74
Total incurred claims	2,822	13,439
Payments:		
Claims attributable to insured events of the current year	2,552	10,471
Claims attributable to insured events of the prior years	2,988	734
Total payments	5,540	11,205
Total unpaid claims at end of the year	$ 1,229	$ 3,947

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than $10 million per occurrence are covered by reinsurance policies. Maximum recoverable from reinsurance for any one catastrophic event is $80 million per occurrence. Annual aggregate limits of $15 million apply separately with respect to flood and earthquake. Coverage applies to all "all risk" perils. Boiler and machinery coverage can be purchased under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently, there are no claims for reinsurance.

B. Employee Benefit Plans

1. State Health Plan

In accordance with Chapter 135, Article 3, Part 3, of the General Statutes, the State established the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan, referred to as the State Health Plan (the Plan). The Plan provides comprehensive major medical care benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. This care is also extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity. Coverage is self-funded by contributions to the Plan, which is reported as a pension and other employee benefit trust fund. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units.

Contributions for dependent coverage are made by employees and retirees. As described in Note 13, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable allowances. Claims are subject to specified annual deductible and co-payment requirements. The Plan disallows claims in excess of a lifetime maximum of $5 million.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-04	$ 156,752	$ 1,435,865	$ (1,425,945)	$ 166,672
2004-05	166,672	1,728,605	(1,663,314)	231,963

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina system, community colleges, and certain participating proprietary component units and Local Education Agencies (LEAs) which are not part of the reporting entity. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest twelve month's salary in a row during the twenty-four months prior to his/her death. The benefit is subject to a minimum of $25,000 and to a maximum of $50,000.

Death benefits are funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. For the period July 1, 2004 to June 30, 2005, there were no actuarially based required employer contributions and none were made.

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

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-04	$ 2,079	$ 25,195	$ (25,365)	$ 1,909
2004-05	1,909	31,222	(30,865)	2,266

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units, and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability, which is determined as the last actual day of service or the day succeeding at least 365 calendar days after the commencement of service, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. As discussed in Note 13, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

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

Significant actuarial assumptions used to estimate claim liabilities are presented in Note 13. Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-04	$ 278,664	$ 56,574	$ (54,105)	$ 281,133
2004-05	281,133	63,653	(53,591)	291,195

C. Other Risk Management and Insurance Activities

1. Automobile, Fire and Other Property Losses

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first $500,000 of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than $500,000. The liability limits for losses incurring in-state are $500,000 per claimant and $5 million per occurrence. For losses incurring out-of-state, the limits are $1 million per claimant and $5 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

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

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses is free for all operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums discounted from industry manual rates. The Fund insures losses up to $2.5 million per occurrence. All losses covered by the Fund are subject to a $500 per occurrence deductible except for theft, which carries a $1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, in excess of $50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach $5 million in any one annual period, the Fund's deductible for the remainder of the annual period is $100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Claims of $10,000 or higher are paid when the Council of State approves the request for payment. Claims less than $10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Claims payable at June 30, 2005 are disclosed on the balance sheet as claims payable. Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-04	$ 1,196	$ 1,676	$ (1,645)	$ 1,227
2004-05	1,227	1,451	(997)	1,681

2. Medical Malpractice Protection

a. *Professional Liability Insurance for State Medical Personnel*

All agencies of the State and participating component units are insured for tort claims up to $500,000 under the authority of the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. Organizations within the reporting entity carry excess commercial liability insurance to supplement the coverage provided by the State Tort Claims Act; however, claims involving medical malpractice are generally excluded from this coverage. The University of North Carolina at Chapel Hill Medical School (UNC-CH Medical School) and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. All other universities purchase commercial liability insurance. Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Correction to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of $1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Correction purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

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

b. *Self-Insurance through the Liability Insurance Trust Fund*

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

As of July 1, 2004 through June 30, 2005, the Trust fund provided coverage on an occurrence basis of $3,000,000 per individual and $7,000,000 in the aggregate per claim. At May 1, 2003 through June 30, 2004, the Trust Fund provided coverage on an occurrence basis of $7,000,000 per individual for each and every claim, self-insured through the Trust Fund. Effective July 1, 2004 through June 30, 2005, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer. Reinsurance coverage under this policy carries a $10,000,000 aggregate limit in excess of a self-insured aggregate of $30,000,000 subject to a $7,000,000 per occurrence limit (sub-limit of $3,000,000 per individual) with a $300,000 continuing underlying amount per claim. For losses occurring during the period May 1, 2003 through June 30, 2004, the Trust Fund retained 100% of the liability.

The Trust Fund purchased a primary policy for dental residents on a claims made basis with $1 million per occurrence and $3 million annual aggregate limits of coverage. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to $30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of $38,085,250 and $48,177,508 are the present values of the aggregate actuarially determined claims liabilities of $39,745,211 and $48,768,443, discounted at 4% at June 30, 2004 and 3% at June 30, 2005, 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
2003-04	$ 35,658	$ 18,217	$ (15,790)	$ 38,085
2004-05	38,085	18,120	(8,027)	48,178

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 $5 million excess insurance over the $500,000 statutory limit payable for any one claim under the State Tort Claims Act. The first $150,000 of an award against a state agency is the responsibility of the state agency's general fund budget code or up to $500,000 if a non-general fund budget code. For general fund budget codes, any award greater than $150,000 but less than $500,000 is funded by proportionate shares of estimated lapse salaries from all agencies general fund budget codes. Since State agencies and component units are responsible for funding any tort claims of $500,000 or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

4. Employee Dishonesty and Computer Fraud

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State and its component units with a limit of $5 million per occurrence, subject to a $50,000 deductible and a 10% participation in each loss above the deductible. This coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the State and its component units are charged premiums by the private insurance company. A small number of State agencies and component units of the State require faithful performance coverage in addition to employee dishonesty coverage. In these instances, separate policies have been purchased. The amounts of coverage and the deductibles vary among these separate policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

5. Statewide Workers' Compensation Program

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

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

The State and its component units are self-insured for workers' compensation. A third-party administrator handles workers' compensation claims except for the Department of Transportation. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. The third party administrator receives a per case administration fee and draws down State funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

Each state agency and participating component unit is responsible for paying claims out of its individual budget. Budgets for workers' compensation for most State agencies and participating component units are based on the prior year's loss experience. Since the related liability is not measurable, claim costs are recognized when paid. The Department of Transportation is the only state agency that sets up a reserve for claims. For the year ended June 30, 2005, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	$ 70,742
University of North Carolina System	6,535
All other component units	24
Total	$ 77,301

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, 2005 was $866,000. As of June 30, 2005, the Fund consisted of 1,219 eligible units representing approximately 41,612 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, 2005, 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 $500,000 per occurrence and a $1,500,000 limit for employer's liability above the Program's retention of $500,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 2005, there are claims recoverable from reinsurers in the amount of $1,724,806.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-04	$ 8,333	$ 6,208	$ (4,755)	$ 9,786
2004-05	9,786	5,594	(5,266)	10,114

7. Health Insurance Program for Children

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

Coverage is provided from federal funds received, State funds appropriated, and other nonappropriated funds made available for this purpose. All appropriations, allocations, premium receipts, or any other receipts, including earnings on investments, occurring or arising in connection with acute medical care benefits provided under the Program are deposited into the Child Health Insurance Fund (the Fund). Disbursements from the Fund include any and all amounts required to pay the benefits and administrative costs of the Program. For the fiscal year ended June 30, 2005, $61,997,681 was appropriated from the General Fund to the North Carolina Department of Health and Human Services (DHHS) to be used for the Program.

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

NOTES TO THE FINANCIAL STATEMENTS

Annual enrollment fees, co-payments, or other cost-sharing charges are determined by family income. However, there are no enrollment fees, deductibles, co-payments, or other cost-sharing charges for families covered under the Program whose family income is at or below 150% of the federal poverty level. A family's total annual aggregate cost-sharing charges shall not exceed five percent of the family's income for the year involved. The program had an enrollment of 130,694 children as of June 30, 2005, and an average enrollment of 122,087 children insured during the year.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-04	$ 13,618	$ 198,072	$ (189,356)	$ 22,334
2004-05	22,334	250,719	(240,700)	32,353

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NOTE 15: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2005 are presented below (dollars in thousands).

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2005
(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	401(k) Supplemental Retirement Income Plan
Assets							
Cash and cash equivalents	$ 50,832	$ 1,409	$ 32	$ 60	$ 389	$ 20,020	$ 10
Investments:							
Annuity contracts	—	—	—	—	—	—	792,416
Mutual funds	—	—	—	—	—	—	2,135,734
State Treasurer investment pool	49,754,143	385,720	29,520	292,103	56,684	14,396,811	—
Securities lending collateral	9,054,455	70,882	5,366	52,886	10,564	2,625,442	—
Receivables:							
Accounts receivable	2,569	—	—	—	—	1,443	—
Interest receivable	480	5	—	3	1	128	—
Contributions receivable	47,308	—	21	—	—	28,417	—
Due from fiduciary funds	2,517	—	—	—	—	—	—
Due from other funds	16,838	807	—	—	—	—	—
Notes receivable	—	—	—	—	—	—	144,063
Capital assets-depreciable, net	—	—	—	—	—	—	—
Total Assets	58,929,142	458,823	34,939	345,052	67,638	17,072,261	3,072,223
Liabilities							
Accounts payable and accrued liabilities:							
Accounts payable	—	—	—	—	—	—	—
Benefits payable	7,077	—	—	—	9	285	—
Medical claims payable	—	—	—	—	—	—	—
Obligations under securities lending	9,054,455	70,882	5,366	52,886	10,564	2,625,442	—
Due to fiduciary funds	—	11	6	545	19	1,887	—
Due to other funds	—	—	—	1	—	—	—
Deferred revenue	—	—	—	—	—	—	—
Compensated absences	—	—	—	—	—	—	—
Total Liabilities	9,061,532	70,893	5,372	53,432	10,592	2,627,614	—
Net Assets							
Held in trust for:							
Employees' pension and other benefits	49,867,610	387,930	29,567	291,620	57,046	14,444,647	3,072,223
Total Net Assets	$ 49,867,610	$ 387,930	$ 29,567	$ 291,620	$ 57,046	$ 14,444,647	$ 3,072,223

A schedule of funding progress for each defined benefit plan is presented on page 158.

NOTES TO THE FINANCIAL STATEMENTS

Deferred Compensation Plan	Death Benefit Plan of N.C.	State Health Plan	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	*Totals*
$ 2,227	$ 3,813	$ 188,049	$ 71,972	$ 9,172	$ 976	$ 520	$ 349,481
280,706	—	—	—	—	—	—	1,073,122
334,321	—	—	—	—	—	—	2,470,055
—	240,762	—	—	252,323	—	25,670	65,433,736
—	117,134	165,952	56,350	126,824	764	12,576	12,299,195
203	46	21,497	—	8,342	—	—	34,100
—	11	612	153	28	2	1	1,424
4,740	216	—	23,531	3,271	—	296	107,800
—	—	—	—	—	—	—	2,517
—	—	—	7,100	968	—	—	25,713
—	—	—	—	—	—	—	144,063
—	—	17	—	—	—	—	17
622,197	361,982	376,127	159,106	400,928	1,742	39,063	81,941,223
109	150	9,616	—	—	—	—	9,875
—	2,266	—	—	291,195	—	—	300,832
—	—	231,963	—	—	—	—	231,963
—	117,134	165,952	56,350	126,824	764	12,576	12,299,195
—	—	—	—	49	—	—	2,517
—	—	4	—	—	—	—	5
—	—	29,027	—	—	—	—	29,027
—	—	42	—	—	—	—	42
109	119,550	436,604	56,350	418,068	764	12,576	12,873,456
622,088	242,432	(60,477)	102,756	(17,140)	978	26,487	69,067,767
$ 622,088	$ 242,432	$ (60,477)	$ 102,756	$ (17,140)	$ 978	$ 26,487	$69,067,767

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2005
(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	401(k) Supplemental Retirement Income Plan
Additions:							
Contributions:							
Employer	$ 255,137	$ 6,907	$ —	$ —	$ —	$ 213,873	$ 117,859
Members	685,719	3,868	257	2,694	—	264,782	187,292
Other contributions	—	—	—	7,521	1,564	—	—
Total contributions	940,856	10,775	257	10,215	1,564	478,655	305,151
Investment Income:							
Investment earnings (loss)	4,804,234	37,248	2,874	28,202	5,422	1,376,674	246,016
Less investment expenses	(287,226)	(2,237)	(172)	(1,714)	(330)	(82,183)	—
Net investment income (loss)	4,517,008	35,011	2,702	26,488	5,092	1,294,491	246,016
Other additions:							
Fees, licenses and fines	—	—	—	—	—	4,687	—
Interest earnings on loans	—	—	—	—	—	—	7,002
Miscellaneous	1,684	—	—	2	—	103	—
Total other additions	1,684	—	—	2	—	4,790	7,002
Total additions	5,459,548	45,786	2,959	36,705	6,656	1,777,936	558,169
Deductions:							
Claims and benefits	2,351,563	20,433	1,576	18,131	2,366	530,803	147,781
Refund of contributions	88,720	85	50	569	—	64,012	—
Administrative expenses	15,440	46	15	1,324	85	5,533	1,010
Other deductions	1	—	—	—	—	—	—
Total deductions	2,455,724	20,564	1,641	20,024	2,451	600,348	148,791
Change in net assets	3,003,824	25,222	1,318	16,681	4,205	1,177,588	409,378
Net assets — July 1, as restated (Note 22)	46,863,786	362,708	28,249	274,939	52,841	13,267,059	2,662,845
Net assets — June 30	$ 49,867,610	$ 387,930	$ 29,567	$ 291,620	$ 57,046	$ 14,444,647	$ 3,072,223

NOTES TO THE FINANCIAL STATEMENTS

Deferred Compensation Plan	Death Benefit Plan of N.C.	State Health Plan	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	*Totals*
$ —	$ 3,674	$ 1,375,070	$ 380,215	$ 52,607	$ 781	$ 3,019	$ 2,409,142
31,472	—	299,450	—	—	—	—	1,475,534
—	9,144	—	—	—	—	—	18,229
31,472	12,818	1,674,520	380,215	52,607	781	3,019	3,902,905
49,033	26,118	13,750	2,441	27,108	43	2,574	6,621,737
—	(2,726)	(5,113)	(908)	(2,875)	(16)	(266)	(385,766)
49,033	23,392	8,637	1,533	24,233	27	2,308	6,235,971
—	—	9	—	—	—	—	4,696
—	—	—	—	—	—	—	7,002
—	—	—	—	—	—	—	1,789
—	—	9	—	—	—	—	13,487
80,505	36,210	1,683,166	381,748	76,840	808	5,327	10,152,363
37,974	31,222	1,728,605	—	63,653	750	815	4,935,672
—	—	—	—	—	—	—	153,436
1,851	550	55,272	359,916	467	—	15	441,524
—	—	52	—	—	73	—	126
39,825	31,772	1,783,929	359,916	64,120	823	830	5,530,758
40,680	4,438	(100,763)	21,832	12,720	(15)	4,497	4,621,605
581,408	237,994	40,286	80,924	(29,860)	993	21,990	64,446,162
$ 622,088	$ 242,432	$ (60,477)	$ 102,756	$ (17,140)	$ 978	$ 26,487	$ 69,067,767

NOTE 16: SEGMENT INFORMATION

Primary Government. The Town of Butner water and sewer system is administered by the N.C. Department of Health and Human Services. The State issued revenue bonds to finance upgrades to the Town's water treatment plant, wastewater plant, sanitary sewer system, and water distribution system. This system provides water and sewer services to the State facilities in the Town of Butner as well as to other customers in southern Granville County.

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

Condensed financial statements for the Town of Butner water and sewer system and the two segments of the North Carolina Housing Finance Agency as of and for the fiscal year ended June 30, 2005 are presented below (dollars in thousands).

	Town of Butner Water and Sewer	N.C. Housing Finance Agency	
		Home Ownership	Rental
Condensed Statement of Net Assets			
Assets:			
Current assets	$ 9,177	$ 44,793	$ 35,134
Capital assets-nondepreciable	1,312	—	—
Capital assets-depreciable, net	26,067	—	—
Other assets	2,472	1,284,536	143,909
Total assets	39,028	1,329,329	179,043
Liabilities:			
Current liabilities	4,466	36,368	3,674
Noncurrent liabilities	10,375	1,134,263	127,037
Total liabilities	14,841	1,170,631	130,711
Net assets:			
Invested in capital assets, net of related debt	16,741	—	—
Restricted	400	158,698	48,332
Unrestricted	7,046	—	—
Total net assets	$ 24,187	$ 158,698	$ 48,332
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating revenues (pledged against bonds)	3,566	$ 76,519	$ 11,698
Depreciation expense	(1,665)	—	—
Other operating expenses	(2,468)	(65,612)	(7,790)
Operating income	(567)	10,907	3,908
Nonoperating revenues (expenses):			
Investment earnings	214	—	—
Interest expense	(47)	—	—
Capital contributions	400	—	—
Transfers in	—	2,878	—
Transfers out	(258)	—	(6,252)
Change in net assets	(258)	13,785	(2,344)
Net assets — July 1, as restated	24,445	144,913	50,676
Net assets — June 30	$ 24,187	$ 158,698	$ 48,332
Condensed Statement of Cash Flows			
Net cash provided (used) by:			
Operating activities	$ 1,143	$ 30,478	$ 31,931
Noncapital financing activities	(258)	(2,281)	(25,544)
Capital and related financing activities	(519)	—	—
Investing activities	230	20,722	9,153
Net increase (decrease)	596	48,919	15,540
Cash and cash equivalents at July 1	6,742	75,862	18,639
Cash and cash equivalents at June 30	$ 7,338	$ 124,781	$ 34,179

NOTE 17: COMPONENT UNITS — FINANCIAL INFORMATION

The financial statements for the University of North Carolina System and Community Colleges include their nongovernmental component unit foundations and similarly affiliated organizations. Financial statements for component units as of and for the fiscal year ended June 30, 2005 are presented below (dollars in thousands).

Statement of Net Assets

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Assets							
Cash and cash equivalents	$ 282	$ 2,147,479	$ 168,945	$ 215,216	$ 286,848	$ 42,695	$ 2,861,465
Investments	505,378	1,022,158	59,413	233,017	305,849	18,693	2,144,508
Receivables, net	2	607,681	61,100	15,349	34,968	9,708	728,808
Due from component units	—	55,971	3,979	—	835	473	61,258
Due from primary government	—	153,601	118,696	48,352	27,255	—	347,904
Inventories	—	57,757	14,627	—	3	855	73,242
Prepaid items	28	10,872	1,075	—	996	562	13,533
Notes receivable, net	200	117,760	639	1,170,875	2,009,826	10,061	3,309,361
Endowment investments	—	1,932,913	77,678	—	—	—	2,010,591
Investment in joint venture	—	8,319	—	—	—	—	8,319
Deferred charges	—	10,519	—	—	10,233	789	21,541
Capital assets-nondepreciable	—	1,401,099	335,055	58	—	76,971	1,813,183
Capital assets-depreciable, net	24	4,707,308	1,020,691	2,065	4,824	178,543	5,913,455
Total Assets	505,914	12,233,437	1,861,898	1,684,932	2,681,637	339,350	19,307,168
Liabilities							
Accounts payable and accrued liabilities	17,135	469,954	52,300	8,497	609	6,985	555,480
Medical claims payable	—	3,975	—	—	—	—	3,975
Interest payable	—	12,460	8	8,668	13,259	16	34,411
Short-term debt	—	143,141	—	—	—	—	143,141
Due to component units	61,258	—	—	—	—	—	61,258
Due to primary government	4,769	1,101	35	—	—	8,445	14,350
Unearned revenue	—	112,551	8,130	677	—	1,027	122,385
Advance from primary government	—	—	—	—	—	21,800	21,800
Obligations under reverse repurchase agreements	—	—	—	9,992	—	—	9,992
Deposits payable	—	7,753	—	2,912	—	3	10,668
Funds held for others	—	382,198	3,880	—	196,745	1,190	584,013
Long-term liabilities:							
Due within one year	—	195,125	9,033	31,178	1,009	1,947	238,292
Due in more than one year	—	2,158,650	58,988	1,261,853	1,923,544	14,916	5,417,951
Total Liabilities	83,162	3,486,908	132,374	1,323,777	2,135,166	56,329	7,217,716
Net Assets							
Invested in capital assets, net of related debt	24	4,230,695	1,345,352	2,123	4,824	226,178	5,809,196
Restricted for:							
Nonexpendable:							
Higher education	—	1,051,288	94,854	—	—	—	1,146,142
Expendable:							
Higher education	—	1,713,688	204,319	—	538,896	—	2,456,903
Health and human services	—	—	—	—	—	762	762
Economic development	—	—	—	345,980	—	—	345,980
Other purposes	—	—	—	—	—	24	24
Unrestricted	422,728	1,750,858	84,999	13,052	2,751	56,057	2,330,445
Total Net Assets	$ 422,752	$ 8,746,529	$ 1,729,524	$ 361,155	$ 546,471	$ 283,021	$ 12,089,452

NOTES TO THE FINANCIAL STATEMENTS

Statement of Activities

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Total expenses	$ 24,471	$ 6,112,010	$ 1,424,287	$ 224,256	$ 175,959	$ 194,728	$ 8,155,711
Program revenues:							
Charges for services	5	3,645,788	240,812	224,960	91,433	49,938	4,252,936
Operating grants and contributions	36,842	803,976	445,550	64,951	31,592	14,873	1,397,784
Capital grants and contributions	—	25,362	94,279	—	—	300	119,941
Net program (expense) revenue	12,376	(1,636,884)	(643,646)	65,655	(52,934)	(129,617)	(2,385,050)
Non-tax general revenues:							
State operating aid	74,320	1,926,891	677,305	6,427	43,649	123,540	2,852,132
State capital aid	—	709,876	138,777	—	—	14,985	863,638
Miscellaneous	—	4,394	—	—	—	—	4,394
Total non-tax general revenues	74,320	2,641,161	816,082	6,427	43,649	138,525	3,720,164
Contributions to endowments	—	82,413	13,144	—	—	—	95,557
Change in net assets	86,696	1,086,690	185,580	72,082	(9,285)	8,908	1,430,671
Net assets — July 1, as restated (Note 22)	336,056	7,659,839	1,543,944	289,073	555,756	274,113	10,658,781
Net assets — June 30	$ 422,752	$ 8,746,529	$ 1,729,524	$ 361,155	$ 546,471	$ 283,021	$ 12,089,452

Significant Balances and Transactions Between Component Units

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
The Golden LEAF, Inc.:							
Due from (due to) component units	$ (61,258)	$ 55,971	$ 3,979	$ —	$ 835	$ 473	$ —
Grant revenue (expense)	(13,079)	6,202	5,327	—	825	725	—
UNC System operating aid	—	(9,566)	—	—	9,566	—	—

Advances To Component Units/Advances From Primary Government

The balance of $21.7 million advanced to the N.C. Global TransPark Authority from the Escheats Fund (a special revenue fund) resulted from a $25 million advance for the purposes of the acquisition of real property in prior fiscal years. The advance is due on October 1, 2007, and will be repaid with interest at a variable rate based upon the earnings record of the State Treasurer's Long-Term Investment Fund. The balance of $58 thousand advanced to the North Carolina Turnpike Authority from the Highway Trust Fund is related to startup operating costs.

Intra-Entity Balances — Between Primary Government and Component Units

	Due From Component Units				Due From Primary Government				
	General Fund	Other Governmental Funds	Other Funds	Total	University of North Carolina System	Community Colleges	NC Housing Finance Agency	State Education Assistance Authority	Total
Due To Component Units:									
General Fund	$ —	$ —	$ —	$ —	$ 2,471	$ —	$ 48,352	$ —	$ 50,823
Other Governmental Funds	—	—	—	—	151,130	118,696	—	27,255	297,081
Due To Primary Government:									
The Golden LEAF, Inc	4,688	81	—	4,769	—	—	—	—	—
University of North Carolina System	—	8	1,093	1,101	—	—	—	—	—
Community Colleges	—	—	35	35	—	—	—	—	—
Other Component Units	1,251	7,190	4	8,445	—	—	—	—	—
Total	$ 5,939	$ 7,279	$ 1,132	$ 14,350	$ 153,601	$ 118,696	$ 48,352	$ 27,255	$ 347,904

NOTE 18: RELATED ORGANIZATIONS

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate nonprofit corporation created to foster advanced programs in microelectronics and super-computing, in support of economic development and of North Carolina universities and research institutes. It is managed by a twenty-member board. Six of the members are appointed by the Governor and four serve as a result of their positions with the UNC System, a component unit of the State, one serves as a result of his position with MCNC, one is designated by the board of trustees of Duke University, and one is designated by the board of governors of the Research Triangle Institute. These board members elect the remaining seven members. Any appointed director may be removed from office by the Governor for cause. Any elected director may be removed at will by the Board.

Centennial Authority

The Centennial Authority is a legally separate organization established to study, design, plan, construct, own, promote, finance, and operate a regional facility in Wake County, North Carolina, now known as the RBC Center. The RBC Center houses entertainment shows and is home to two sports teams, the NHL's Carolina Hurricanes and North Carolina State University men's basketball. The Authority is governed by a twenty-one member board comprised of ten members appointed by the General Assembly, four members appointed by the Wake County Board of Commissioners, four members appointed by the Raleigh City Council, two members appointed jointly by the mayors of all the cities in Wake County, and the chancellor of North Carolina State University (or the Chancellor's designee). A member may be removed by the appointing authority for cause.

NOTE 19: RELATED PARTY TRANSACTIONS

University of North Carolina System and Community Colleges

The University of North Carolina (UNC) System and community colleges have separately incorporated not-for-profit foundations that are associated with constituent institutions of the UNC System or individual colleges. These organizations serve as a fundraising arm of the respective institutions through which individuals, corporations, and other organizations support institution programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the institution's overall academic environment. These affiliated organizations are not included as component units since the economic resources received or held by an individual organization are not significant to the primary government. Therefore, the financial statements of the UNC System and community colleges do not include the assets, liabilities, net assets, or operational transactions of these foundations, except for support from each organization to constituent institutions or colleges. For the fiscal year ended June 30, 2005, this support approximated $37,793,951 for the UNC System and $746,822 for community colleges.

Supplemental Retirement Income Plan of North Carolina

Included in Plan assets is a stable value fund sponsored by the contractor, Prudential Retirement Services. Investment earnings in the Prudential Stable Value Fund amounted to approximately $29.3 million in 2004. The asset values of this fund are disclosed in Note 3.

North Carolina Public Employee Deferred Compensation Plan

Under the terms of an agreement effective January 1, 2004, the Plan's Board of Trustees appointed Great-West Life & Annuity Insurance Company (Great-West), as the Plan's third-party administrator. The Plan recognized $1,727,712 in expenses related to Great-West for the year ended December 31, 2004. The portion of annuity payout contract assets attributable to contracts with Great-West at December 31, 2004 was $31,091,092.

NOTE 20: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2041, the outstanding principal of such bonds and notes as of June 30, 2005, was $5.25 billion with interest rates varying from 1.60 % to 7.57 %.

The North Carolina Capital Facilities Finance Agency is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industry (in connection with manufacturing) where there is a favorable impact on employment or pollution control commensurate with the size and cost of the facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education. Its authority to issue bonds and notes includes financing private sector capital improvements for activities that constitute a public purpose. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2042, the outstanding principal of such bonds and notes as of June 30, 2005, was $1.8 billion with fixed interest rates varying from 2.4% to 7.1% and variable interest rates which can be reset weekly.

B. Litigation

***Hoke County et al. v. State of North Carolina and State Board of Education* — Right to a Sound Basic Education (formerly Leandro).** In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the State constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties but remanded the case for trial on the claim for relief based on the Court's conclusion that the constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002 the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of State resources which may be ultimately be required cannot be determined at this time, however, the total cost could exceed $100 million.

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

NOTES TO THE FINANCIAL STATEMENTS

On December 14, 2001, the Superior Court of Wake County granted summary judgment in favor of the plaintiffs on all issues, concluding that the funds in dispute are civil fines or penalties required by Article IX, Section 7 of the Constitution to be remitted to the public schools in the county where the violation occurred. The court further determined a three-year statute of limitations to be applicable, making the order retroactive to December 1995. This case was argued in the Court of Appeals in February, 2003. The North Carolina Court of Appeals rendered a decision in September 2003 substantially favorable to the State. On July 1, 2005 the Supreme Court reversed the Court of Appeals in part, concluding that a majority of the funds in dispute are civil penalties required to be paid into the Civil Penalty and Forfeiture Fund for the benefit of public schools. The amount which state agencies owe to the Fund, retroactive to December 1995, is to be determined.

Southeast Compact Commission — Disposal of Low-level Radioactive Waste. North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997 the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact subsequently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of $80 million of Compact payments expended on the permitting of the site, plus $10 million of future lost income, interest and attorney fees. The Supreme Court denied this motion in August 2001. On August 5, 2002 the Compact, with the addition of four member states as plaintiffs, filed a new motion requesting the United States Supreme Court to accept the claim under its original jurisdiction. On June 16, 2003, the Court accepted jurisdiction of the case and the State filed an answer and motion to dismiss on August 21, 2003. On November 17, 2003, the motion to dismiss was denied, and the U.S. Supreme Court appointed a Special Master with authority to determine when additional pleadings will be filed in the case. The Special Master heard oral arguments on dispositive motions filed by both sides on September 3, 2004.

***Philip Morris USA Inc. v. Tolson* -- Refund of Corporate Income Tax.** On June 13, 2000, Philip Morris filed a complaint in Wake County Superior Court for a refund of approximately $30 million in corporate income taxes paid for 1989 through 1991. An order of the Augmented Tax Review Board in the 1970's allowed it to apportion its income under a modified formula, which included a more favorable property factor. When the law changed in 1989 to move to double weighting of the sales factor, Philip Morris incorporated this change into its formula. The Board's order did not permit double weighting. Philip Morris argued that the principle of in pari materia required incorporation of the amendment, and that failure to allow double weighting violated the equal protection and separation of powers clauses. The Wake County Superior Court recently ruled that Philip Morris was required to use the formula approved by the Board without double weighting the sales factor unless the statutory formula (without the modified property factor) produced a more favorable result. Philip Morris has appealed this ruling

***State Employees Association of North Carolina v. State; Stone v. State* – Diversion of Employer's Retirement System Contribution.** On May 22, 2001, SEANC filed an action in Wake County Superior Court demanding repayment of approximately $129 million in employer retirement contributions to the Retirement Systems. The Governor withheld, and subsequently used, the withheld funds under his constitutional authority to balance the State budget. The trial court dismissed the action on May 23, 2001, and the North Carolina Court of Appeals affirmed this dismissal on December 3, 2002. The Supreme Court, on June 13, 2003, reversed the Court of Appeals on issues related to class standing and remanded with instructions to consider procedural issues raised but not addressed by the Court of Appeals.

In June, 2002, the *Stone* case was filed in Wake County Superior Court on behalf of individual State employees and retirees seeking repayment of the withheld employer contribution and a prohibition against future diversions. A class comprised of all members of the Retirement System has been certified and the case is proceeding through class notification and toward trial.

***Goldston v. State of North Carolina* – Highway Trust Fund Transfers.** On November 14, 2002, a lawsuit was filed in Wake County Superior Court demanding that $80 million transferred by the Governor from the Highway Trust Fund to the General Fund for purposes of balancing the State budget be returned to the Highway Trust Fund. The suit further alleges that actions of the General Assembly regarding the transfer of funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes. Summary Judgment was granted in favor of the State on all issues and Plaintiff has filed a notice of appeal. On September 20, 2005, the North Carolina Court of Appeals upheld the trial court's order.

Diana Coley, et al. v. State of North Carolina, et al. On April 25, 2003, Plaintiffs filed suit in the Superior Court of Wake County against the State of North Carolina and the Secretary of Revenue challenging the constitutionality of retroactively applying the 2001 increase in the highest rate of North Carolina's state income tax to the entire 2001 tax year. Plaintiffs seek refunds, for themselves and a proposed class of similarly situated taxpayers, of all taxes paid for the year 2001 in excess of the prior 7.75% maximum rate, on the theory that a retroactive midyear tax increase violates the state and federal constitutions. Plaintiffs claim the total amount of taxes involved exceeds $76 million, plus interest. On June 30, 2004, the trial court granted summary judgment in favor of the State on all issues. Plaintiffs appealed and oral arguments were heard by the Court of Appeals in April 2005.

***DirecTV, Inc. and EchoStar Satellite Corporation v. State of North Carolina et al.* – Refund of Sales Tax.** On September 30, 2003, DirecTV and Echostar filed a complaint in Wake County Superior Court for a $32 million refund of state sales tax paid. The legislature recently enacted a provision to impose the sales tax on satellite TV service providers. Plaintiffs claim this tax, which is not imposed on cable television providers, is unconstitutional in that it violates the commerce clause (because it is discriminatory and not fairly related to benefits provided by the State), the equal protection clause and North Carolina's uniformity of taxation constitutional requirement. It is the State's position that although cable providers are not subject to this tax, they are subject to city and county franchise taxes. The tax on satellite companies was enacted to equalize the tax burden on these various forms of entertainment. The case was designated as exceptional under Rule 2.1 of the North Carolina Rules of Civil Procedure and Summary Judgment has been allowed in the State's favor. Plaintiffs have given notice of appeal.

Lessie J. Dunn, et al. v. The State of North Carolina, et al. On February 9, 2004, Plaintiffs, on behalf of a class of all others similarly situated, filed suit in Forsyth County Superior Court alleging that the State's imposition and collection of State income tax on interest received by certain taxpayers on municipal bonds issued by non-North Carolina state and local governments constitutes a violation of the Commerce Clause of the United States Constitution. A similar case recently filed in Ohio was ultimately unsuccessful. The North Carolina Attorney General's Office has filed an answer in the case and an order certifying a plaintiff's class has been entered. The State has appealed from this order.

Bio-Medical Applications of North Carolina, Inc., Bio-Medical Applications of Clinton, Inc., and Bio-Medical Applications of Fayetteville, Inc. v. Electronic Data Systems Corporation, Carmen Hooker Odom, in her official capacity, and Mark Benton, in his official capacity. On February 25, 2005, three providers of dialysis services filed this action in the Eastern District of North Carolina pursuant to 42 USC Section 1983 alleging that defendant Electronic Data Systems Corporation (EDS), and through it the N.C. Division of Medical Assistance, DHHS (DMA) violated four provisions of the Medicaid Act in responding to plaintiffs' claims for Medicaid reimbursement. Plaintiffs object to EDS/DMA decisions not to cover/reimburse various combinations and quantities of prescription drugs during dialysis and to procedures adopted to make coverage/reimbursement determinations. Plaintiffs seek $24 million in allegedly wrongfully withheld Medicaid payments from EDS, the State's Medicaid contract fiscal agent, and, under an Unfair and Deceptive Trade Practices claim, triple damages ($72 million). Against defendants Hooker Odom and Benton, in their official capacities, plaintiffs seek various injunctive relief requiring their interpretations of Medicaid through an order to "comply with federal law."

On April 13, 2005, prior to filing an answer, the state defendants filed a motion to dismiss on multiple grounds, including failure to state a claim under the Medicaid Act, Eleventh Amendment immunity, and inapplicability of the Ex Parte Young exception thereto. EDS also filed a motion. The motion remains pending.

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

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2005, the State is unable to estimate what liabilities may result from such audits except for the $5 million settlement balance with the U.S. Department of Justice and the U.S. Department of Health and Human Services which is included in the long-term liabilities footnote (Note 7).

D. Highway Construction

The State may be liable for approximately $65.23 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional $7.24 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 $95.7 million.

E. USDA-Donated Commodities

The State has custodial responsibility for $3.45 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, 2005, the State had commitments of $1.98 billion for construction of highway facilities. Of this amount,

$1.33 billion relates to the Highway Fund, and $648 million relates to the Highway Trust Fund. The other commitments for construction and improvements of State government facilities totaled $575 million (including $412.3 million for the Department of Environment and Natural Resources and $118.8 million for the Department of Correction).

At June 30, 2005, the University of North Carolina System (component unit) had outstanding construction commitments of $521.1 million (including $65.78 million for University of North Carolina – Chapel Hill, , $62.42 million for University of North Carolina - Greensboro, $62.39 million for University of North Carolina - Wilmington, $53.76 million for UNC Hospitals, and $52.83 million for North Carolina State University).

At June 30, 2005, community colleges (component units) had outstanding construction commitments of $128.8 million (including $22.96 million for Central Piedmont Community College, $21.23 million for Wake Technical Community College, $6.52 million for Catawba Valley Community College, $5.66 million for Coastal Carolina Community College, $5.55 million for Wilkes Community College, and $5.45 million for Southeastern Community College).

At June 30, 2005, The Golden LEAF, Inc. (component unit) had outstanding commitments of $38.4 million.

During the fiscal year, the State entered into a ground lease with the N.C. Aquarium Society in order for the society to renovate and expand the Aquarium at Pine Knoll Shores. The Society entered into a lease back of the renovated facilities to the State starting on July 1, 2006 and ending on July 1, 2025. The lease payments are projected to total $26.745 million over the 20-year period or about $1.337 million annually. The State will manage and maintain this property after the completion of the construction.

G. Tobacco Settlement

In 1998, North Carolina, along with forty-five other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will actually receive from this settlement remains uncertain, but projections are that the State will receive approximately $4.6 billion through the year 2025. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue for the tobacco settlement based on the underlying domestic shipment of cigarettes. This accrual estimate is based on the projected payment schedule in the MSA adjusted for historical payment trends.

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

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

H. Other Contingencies

As of June 30, 2005, the North Carolina Global TransPark Authority (component unit) had a loan outstanding including accrued interest payable totaling $28.9 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2007. The current amount of operating cash held by the Authority is not sufficient to pay the balance due to the Escheat Fund and as such, substantial doubt about the Authority's ability to continue as a going concern exists. In addition, if the Authority declares bankruptcy all funding received to date from the Federal Aviation Administration (FAA) is required to be paid back. As of June 30, 2005, the Authority has received approximately $21.6 million from the FAA.

NOTE 21: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the State implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Formally adopted deposit and investment policies related to the risks identified in this Statement are also a required disclosure. Additionally, the custodial credit risk disclosures of GASB Statement No. 3 were modified to require disclosure only when a government has a category 3 exposure.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers* became effective during the current fiscal year. The State was already adhering to the requirements of this pronouncement, so it did not change the State's recognition of pension contributions to cost-sharing plans.

NOTE 22: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the *Fund Reclassifications* column result from the following: reclassification of the Retiree Health Benefit Reserve from the General Fund to pension and other employee benefit trust funds due to new legislation; reclassification of the Utilities Commission, the State Banking Commission, and the ABC Commission from special revenue funds to enterprise funds since these activities are financed primarily by fees charged to external users; and reclassification of a portion of the Highway Trust Fund to the NC Turnpike Authority, a new discretely presented component unit. The amounts in the *Other Adjustments* column are due primarily to the correction of errors related to prior periods.

	July 1, 2004 Fund Equity as Previously Reported	Fund Reclassifications	Other Adjustments	July 1, 2004 Fund Equity as Restated
Primary Government				
Major Governmental Funds:				
General Fund	$ (196,287)	$ (80,924)	$ 5,310	$ (271,901)
Highway Fund	227,817	—	3,372	231,189
Highway Trust Fund	266,085	6	—	266,091
Other Governmental Funds:				
Special Revenue Funds	2,389,138	(15,510)	—	2,373,628
Capital Projects Funds	281,630	—	—	281,630
Permanent Funds	55,653	—	—	55,653
Total Governmental Funds	3,024,036	(96,428)	8,682	2,936,290
Internal Service Funds	195,740	—	(1,311)	194,429
Government-wide adjustments:				
Capital assets	25,465,299	(4,235)	36,663	25,497,727
Unavailable deferred revenues	319,205	—	(6,559)	312,646
Long-term debt	(5,966,779)	1,869	7,200	(5,957,710)
Accrued interest payable	(56,373)	—	—	(56,373)
Pension assets	278	—	—	278
Total Government-wide adjustments	19,761,630	(2,366)	37,304	19,796,568
Total Governmental Activities	$ 22,981,406	$ (98,794)	$ 44,675	$ 22,927,287
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	$ 20,125	$ —	$ —	$ 20,125
EPA Revolving Loan Fund	640,529	—	—	640,529
Other enterprise funds	93,465	17,876	(1,102)	110,239
Total Business-type Activities - Enterprise Funds	$ 754,119	$ 17,876	$ (1,102)	$ 770,893
Fiduciary Funds				
Pension and Other Employee Benefit Trust Funds	$ 64,365,238	$ 80,924	$ —	$ 64,446,162
Investment Trust Funds	516,895	—	—	516,895
Private Purpose Trust Funds	1,112,961	—	—	1,112,961
Component Units				
The Golden LEAF, Inc.	$ 336,056	$ —	$ —	$ 336,056
University of North Carolina System	7,663,442	—	(3,603)	7,659,839
Community Colleges	1,545,766	—	(1,822)	1,543,944
NC Housing Finance Agency	289,073	—	—	289,073
State Education Assistance Authority	555,756	—	—	555,756
Other component units	273,978	(6)	141	274,113
Total Component Units	$ 10,664,071	$ (6)	$ (5,284)	$ 10,658,781

NOTE 23: SUBSEQUENT EVENTS

Primary Government

Tax Anticipation Notes

The State is authorized by the Constitution to borrow in anticipation of the collection of taxes due and payable within the current fiscal year an amount not exceeding 50% of such taxes. In September 2005, the State issued $125 million in tax anticipation notes with a maturity date of June 30, 2006. The State will use unemployment tax receipts to repay these notes. On September 28, 2005, an initial draw of $75 million was made on the note of which $35 million was used to repay advances from the Federal Unemployment Account (see Federal Repayable Advances below). The remainder and a subsequent draw of $15 million made on October 20, 2005, will be used to pay unemployment benefits, as needed.

Federal Repayable Advances

During the months of July 2005 through September 2005, the State received additional repayable advances of $102.5 million, which brought the total to $216.2 million, from the Federal Unemployment Account (FUA) to finance an operating deficit in the State's Unemployment Compensation Fund. In August 2005, the State used employer tax collections to pay off $188.4 million. On September 28, 2005, the State used $35 million of the proceeds of tax anticipation notes to repay the balance of the FUA. Of these funds, $27.8 million was directed to repay advances and the remaining $7.2 million was deposited with the FUA to cover current and future benefits. These advances were repaid in full by September 28, 2005, in accordance with the policy that advances taken from January 1 to September 30, which are repaid in full on or before September 30, are considered cash flow advances and do not accrue interest provided that the State does not take additional advances from October 1 through December 31 (of same calendar year). The State does not plan to take additional FUA advances through December 31, 2005.

Green Square

On August 5, 2005 legislation was passed to authorize the financing of the Green Square Project, a partnership that involves private and State agencies in the development of an office and museum complex. The complex would house a four-story research center for the North Carolina Museum of Natural Sciences, new credit union offices for State Employees' Credit Union (SECU) employees, and new offices for approximately 615 employees of the Department of Environment and Natural Resources (DENR). The initial architectural design costs will be shared by the parties as follows: DENR and the Museum will pay 67% and SECU will pay 33%. After receiving final approval of the Green Square Project from the Capital Area Planning Commission, all further design and construction costs will be financed by the SECU. These costs will be apportioned appropriately among the project components and will be included in the calculation of the lease payments or the purchase price of the Green Square Project.

Guaranteed State Energy Contracts

The State is authorized under G.S. 142, Article 8, to finance up to $50 million for projects that provide energy costs that are sufficient to pay the debt service on the projects' financing. On August 19, 2005, the Department of Administration entered into an installment financing contract for $5 million of energy conservation improvements at the North Carolina Museum of Art. On November 21, 2005, the Department of Administration entered into a second installment financing contract for $18.9 million of energy conservation improvements at the Downtown State Government Complex.

Component Units

University of North Carolina at Chapel Hill, Bond Issuance

On August 30, 2005, the University issued $404.96 million of University of North Carolina at Chapel Hill General Revenue and Revenue Refunding Bonds, Series 2005A. The 2005A Bonds were issued to provide funds (1) to finance or refinance the costs of certain capital projects at The University of North Carolina at Chapel Hill, (2) to advance refund certain revenue bonds issued for the benefit of the University, (3) to pay capitalized interest on a portion of the 2005A Bonds and (4) to pay the costs incurred in connection with the issuance of the 2005A Bonds. The bonds will mature, subject to mandatory and optional redemption, from December 1, 2005 to December 1, 2034, with amounts varying from $480 thousand due December 1, 2005 to $305.68 million Term Bonds due December 1, 2034. The 2005A Bonds have an interest rate range of 3.0% to 5.0%.

University of North Carolina Hospitals, Lease Financing Arrangement

On July 18, 2005, the University of North Carolina Hospitals' Board of Directors approved entering into a tax-exempt lease purchase financing arrangement for routine medical and medical related capital equipment with an aggregate principal amount not to exceed $50 million.

State Education Assistance Authority, Bond Issuance

On August 2, 2005, the State Education Assistance Authority (the Authority) issued $300,000,000 State of North Carolina State Education Assistance Authority Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien). The Authority anticipates the issuance of State of North Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, Series 2005-A, in a total amount not to exceed $550,000,000 (consisting of tax-exempt bonds in an amount not to exceed $500,000,000 and taxable bonds in an amount not to exceed $50,000,000) with an expected date of delivery of October 27, 2005. The proceeds from these issuances will be used to fund student loans.

Required Supplementary Information

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

June 30, 2005

(Expressed in Thousands)

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a) NOTE 1	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-04	$ 47,383,509	$ 43,827,854	$ (3,555,655)	108.1%	$ 10,366,137	(34.3)%
	12-31-03	45,117,508	41,733,701	(3,383,807)	108.1%	10,082,153	(33.6)%
	12-31-02	43,226,837	39,863,983	(3,362,854)	108.4%	9,734,448	(34.6)%
	12-31-01	42,104,086	37,713,663	(4,390,423)	111.6%	9,494,603	(46.2)%
	12-31-00 A	39,773,747	35,248,770	(4,524,977)	112.8%	9,001,354	(50.3)%
	12-31-99 A	36,119,250	32,787,108	(3,332,142)	110.2%	8,437,649	(39.5)%
Consolidated Judicial	12-31-04	$ 363,110	$ 334,272	$ (28,838)	108.6%	$ 49,368	(58.4)%
	12-31-03	340,857	316,649	(24,208)	107.6%	49,465	(48.9)%
	12-31-02	323,384	301,031	(22,353)	107.4%	48,432	(46.2)%
	12-31-01	311,221	285,692	(25,529)	108.9%	47,773	(53.4)%
	12-31-00	291,807	269,181	(22,626)	108.4%	43,546	(52.0)%
	12-31-99	259,706	241,303	(18,403)	107.6%	43,037	(42.8)%
Legislative	12-31-04	$ 27,478	$ 20,696	$ (6,782)	132.8%	$ 3,658	(185.4)%
	12-31-03	26,327	20,046	(6,281)	131.3%	3,692	(170.1)%
	12-31-02	25,304	19,243	(6,061)	131.5%	3,668	(165.2)%
	12-31-01	24,231	18,551	(5,680)	130.6%	3,691	(153.9)%
	12-31-00	22,314	17,733	(4,581)	125.8%	3,785	(121.0)%
	12-31-99	19,674	16,795	(2,879)	117.1%	3,719	(77.4)%
Firemen's and Rescue Squad Workers'	6-30-04	$ 261,148	$ 273,826	$ 12,678	95.4%	N/A	N/A
	6-30-03	249,925	260,707	10,782	95.9%	N/A	N/A
	6-30-02	239,918	249,316	9,398	96.2%	N/A	N/A
	6-30-01	225,276	230,796	5,520	97.6%	N/A	N/A
	6-30-00 B	202,751	240,335	37,584	84.4%	N/A	N/A
	6-30-99	175,245	196,569	21,324	89.2%	N/A	N/A
North Carolina National Guard	12-31-04	$ 54,069	$ 93,388	$ 39,319	57.9%	N/A	N/A
	12-31-03	51,316	58,752	7,436	87.3%	N/A	N/A
	12-31-02	46,769	58,943	12,174	79.3%	N/A	N/A
	12-31-01	46,314	52,235	5,921	88.7%	N/A	N/A
	12-31-00	43,886	49,495	5,609	88.7%	N/A	N/A
	12-31-99	39,445	47,731	8,286	82.6%	N/A	N/A
Registers of Deeds' *NOTE 2*	12-31-04	$ 24,262	$ 12,240	$ (12,022)	198.2%	$ 5,549	(216.6)%
	12-31-03	20,439	11,886	(8,553)	172.0%	5,178	(165.2)%
	12-31-02	16,325	11,673	(4,652)	139.9%	4,767	(97.6)%
	12-31-01	12,887	11,648	(1,239)	110.6%	4,736	(26.2)%
	12-31-99	9,227	10,859	1,632	85.0%	4,406	37.0%
	12-31-98	7,780	10,002	2,222	77.8%	4,060	54.7%
Local Governmental Employees'	12-31-04	$ 13,377,297	$ 13,466,189	$ 88,892	99.3%	$ 4,088,170	2.2%
	12-31-03	12,364,380	12,455,503	91,123	99.3%	3,898,476	2.3%
	12-31-02	11,393,460	11,462,706	69,246	99.4%	3,746,396	1.9%
	12-31-01	10,764,032	10,836,460	72,428	99.3%	3,597,769	2.0%
	12-31-00	9,892,805	9,967,548	74,743	99.3%	3,344,615	2.2%
	12-31-99	8,818,583	8,885,530	66,947	99.2%	3,117,204	2.2%

NOTE 1 a negative UAAL denotes excess actuarial assets
NOTE 2 No valuation was done for 12-30-00

A- For 12-31-98, legislation directed the 5-year smoothed market value to be capped at 77% of actual market value. The 2001 Session of the General Assembly removed this cap. The original asset values at these valuations were adjusted or restated from their presentation in prior CAFRs to reflect the effect of this change.

B- Change in the actuary's computation of the 5-year smoothed market value of assets.

N/A - Not applicable

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 124.

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

For the Six-Year Period 2000 to 2005 (July 1 to June 30)

(Expressed in Thousands)

Retirement System	State Fiscal Year	Annual Required Contribution	Percentage Contributed	
Teachers' and State Employees'	2005	$ 237,170	100%	
	2004	23,135	100%	Note 1
	2003	—	NR	
	2002	196,003	100%	
	2001	513,907	76%	
	2000	735,393	100%	
Consolidated Judicial	2005	$ 6,513	100%	
	2004	5,583	100%	Note 1
	2003	5,993	100%	
	2002	7,003	100%	
	2001	9,071	75%	
	2000	8,435	100%	
Legislative	2005	$ —	NR	
	2004	—	NR	
	2003	—	NR	
	2002	858	97%	
	2001	861	71%	
	2000	811	100%	
Firemen's and Rescue Squad Workers'	2005	$ 7,521	100%	
	2004	6,801	100%	Note 1
	2003	6,856	100%	
	2002	10,027	100%	
	2001	12,105	92%	
	2000	12,105	100%	
North Carolina National Guard	2005	$ 1,412	111%	Note 3
	2004	1,176	100%	Note 1
	2003	1,132	0%	
	2002	1,542	58%	
	2001	2,075	100%	
	2000	2,545	100%	
Registers of Deeds'	2005	$ 29	10,458%	Note 2
	2004	286	1,158%	
	2003	1,722	197%	
	2002	1,722	128%	
	2001	1,826	98%	
	2000	1,739	87%	
Local Governmental Employees'	2005	$ 216,097	100%	
	2004	208,092	100%	
	2003	233,753	100%	
	2002	192,170	100%	
	2001	179,238	100%	
	2000	168,201	100%	

NR- No contribution was required or made.

Note 1- The State made additional contributions not related to the ARC. The amounts were disclosed in the 2004 CAFR.

Note 2- Actual contibutions by employers are based on certain local fee collections, not the actuarial requirements.

Note 3- National Guard was given an additional $152 thousand not required by the actuary.

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 124.

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

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Individual income	$ 8,105,900	$ 8,105,900	$ 8,409,289	$ 303,389
Corporate income	881,400	881,400	1,193,529	312,129
Sales and use	4,358,500	4,358,500	4,477,159	118,659
Franchise	478,300	478,300	498,681	20,381
Insurance	448,200	448,200	431,664	(16,536)
Beverage	185,800	185,800	189,309	3,509
Inheritance	136,200	136,200	135,211	(989)
Other	146,141	146,141	142,715	(3,426)
Non-Tax:				
Fees, licenses and fines	136,730	136,730	141,632	4,902
Investment income	86,020	86,020	71,445	(14,575)
Disproportionate share receipts	100,000	100,000	111,110	11,110
Federal funds for fiscal relief	—	—	—	—
Other	323,215	323,215	266,050	(57,165)
Transfers in	258,753	258,753	258,687	(66)
Departmental:				
Federal funds	7,812,271	9,913,998	8,807,280	(1,106,718)
Local funds	892,085	1,012,201	955,492	(56,709)
Inter-agency grants and allocations	8,276	53,474	48,800	(4,674)
Intra-governmental transactions	563,075	2,050,696	1,910,241	(140,455)
Sales and services	63,627	86,777	83,427	(3,350)
Rental and lease of property	6,905	7,577	8,184	607
Fees, licenses and fines	222,597	376,320	365,384	(10,936)
Contributions, gifts and grants	23,623	163,656	153,593	(10,063)
Miscellaneous	341,470	96,142	87,908	(8,234)
Universities	771,723	945,372	913,876	(31,496)
Total Revenues	26,350,811	30,351,372	29,660,666	(690,706)
Expenditures:				
Current:				
General government	1,052,659	483,823	469,107	14,716
Primary and secondary education	7,132,794	8,145,885	7,652,382	493,503
Higher education	909,085	1,027,317	983,629	43,688
Health and human services	12,261,190	14,764,339	14,210,248	554,091
Environment and natural resources	312,061	376,086	332,879	43,207
Economic development	116,371	186,126	180,526	5,600
Public safety, corrections, and regulation	1,584,612	2,117,156	1,840,936	276,220
Transportation	11,175	11,175	11,175	—
Agriculture	70,400	83,113	78,137	4,976
Capital outlay	45,192	45,192	45,192	—
Debt service	489,914	493,521	474,327	19,194
Universities	2,638,559	2,890,840	2,854,006	36,834
Total Expenditures	26,624,012	30,624,573	29,132,544	1,492,029
Excess revenues over (under) expenditures	(273,201)	(273,201)	528,122	801,323
Transfers from reserves	—	—	—	—
Transfers to reserves	(14,867)	(14,867)	(333,008)	(318,141)
Nonrecurring transfers from other funds	—	—	(5,984)	(5,984)
Unreserved fund balances (budgetary basis) at July 1, 2004	289,379	289,379	289,379	—
Unreserved fund balances (budgetary basis) at June 30, 2005	$ 1,311	$ 1,311	$ 478,509	$ 477,198

BUDGETARY REPORTING

A. General Fund Budgetary Process

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

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

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the sixteen universities within the University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All sixteen universities have applied for and received special responsibility status.

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

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

B. Special Fund Budgetary Process

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

C. Reconciliation of Budget/GAAP Reporting Differences

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

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

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

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

The following table presents a reconciliation of resulting entity, basis, and timing differences in the fund balances (budgetary basis) at June 30, 2005 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	General Fund
Unreserved fund balance (budgetary basis), June 30, 2005	$ 478,509
Reserved fund balance (budgetary basis),	
Savings	312,641
Repairs and renovation	125,000
Disproportionate share	19,304
Disaster relief	211,679
Job Development Investment Grant	2,542
One North Carolina fund	1,083
Fund balance (budgetary basis)	$ 1,150,758
Reconciling Adjustments:	
Entity Differences:	
Primary government:	
Other	232,351
Basis Differences:	
Accrued revenues:	
Taxes receivable	849,478
Accounts receivable	286,997
Federal funds, net	582,430
Other receivables	108,615
Less:	
Tax refunds payable	(1,279,117)
Deferred revenue	(732,044)
Total accrued revenues	(183,641)
Accrued expenditures:	
Medical claims payable	(896,148)
Accounts payable and accrued liabilities	(526,031)
Other payables	(67,544)
Total accrued expenditures	(1,489,723)
Other Adjustments:	
Notes receivable	5,024
Inventories	59,987
Investments	47
Timing Differences:	
Authorized carryforward for specific encumbrances	46,975
Authorized carryforward for designated programs	99,413
Fund balance (GAAP basis) June 30, 2005	($78,809)

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. In accordance with Session Law 2005-276, Senate Bill 622, Section 2.2(a), $199.1 million was transferred to the Savings Reserve Account from the unreserved credit balance on June 30, 2005. At the end of the fiscal year 2004-2005, the balance of this reserve was $312.6 million.

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 was reported as reserved fund balance for GAAP purposes as of June 30, 2004. However at July 1, 2004, Session Law 2004-124 created the Retirement Health Benefit Fund to administer the premiums. Since the Retirement Health Benefit Fund was created, the remaining balance was transferred from the General Fund. At the end of the fiscal year 2004-2005, the balance of this reserve was zero.

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. In accordance with Session Law 2005-276, Senate Bill 622, Section 2.2(d) the State Controller was directed to transfer $125 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2005. At the end of the fiscal year 2004-2005, the balance of this reserve was $125 million.

Disproportionate Share Reserve Account (1997 General Assembly, Senate Bill 352, Section 11). Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as departmental receipts or non-tax revenues. Fiscal year 2004-2005 actual collection of disproportionate share revenue was $128.9 million. However, in accordance with Session Law 2005-201, House Bill 1631, Section 4, the State Controller was directed to transfer the sum of $11.1 million of disproportionate share receipts back to the non-tax revenue code where such receipts are deposited. At the end of the fiscal year 2004-2005, the remaining balance of this reserve was $19.3 million.

Disaster Relief Reserve. The 1996 Second Extra Session, Section 7.9, Chapter 18 of House Bill 53 authorized the Director of Budget to create the Disaster Relief Reserve. During fiscal year 2004-2005 $248 million was transferred to the Disaster Relief Reserve to fund recovery from the effects of the 2004 Hurricane Season. This $248 million was funded from required agency, university, and community college transfers, a Savings Reserve transfer, and transfers of funds from the unreserved credit balance. At the end of the fiscal year 2004-2005, the remaining balance of this reserve was $211.7 million.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Easley Executive Order No. 22 Reserve. On June 27, 2002, Governor Easley signed Executive Order Number 22. This executive order became effective July 1, 2002 and ordered that the Office of State Budget and Management (OSBM), as directed by the Governor, take any steps necessary to insure that a deficit not be incurred for the fiscal year 2002-03. Therefore, in anticipation of total expenditures exceeding total receipts for fiscal year 2003-04, the Governor directed the transfer of the Disaster Relief Reserve balance to the Easley Executive Order No. 22 Reserve. During the fiscal year 2003-2004 transfers in the amount of $108.8 million to General Fund availability and $40 million to fund disaster relief programs were made from this reserve leaving a balance of $11.7 million. During fiscal year 2004-2005 this $11.7 million was transferred out to fund disaster recovery resulting from the 2004 Hurricane Season and continued funding for Hurricane Floyd recovery. At the end of the fiscal year 2004-2005, the remaining balance of this reserve was zero.

One North Carolina Fund Reserve. Section 12.4(d) of Session Law 2003-284 states that funds appropriated to the One North Carolina Industrial Recruitment Competitive Fund for fiscal year 2002-2003 that are unexpended and unencumbered as of June 30, 2003 shall not revert to the General Fund and shall remain available for future use. However, funds in the One North Carolina Industrial Recruitment Competitive Fund for fiscal year 2002-2003 were not carried forward to fiscal year 2003-2004 due to credit balance funds that were budgeted by the General Assembly for fiscal year 2003-2004. The Office of State Budget and Management, after consultation with Joint Legislative Commission on Governmental Operations on November 4, 2003, established the One North Carolina Reserve. This reserve was funded by a transfer from the unexpended legislative increase appropriation of $1.5 million. At the end of fiscal year 2004-2005, the remaining balance of this reserve was $1.1 million.

Job Development Investment Grant Program Reserve (JDIG). In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a), Article 1 of Chapter 143 of the General Statutes was amended by adding a new section requiring the establishment of a JDIG Reserve in the General Fund. It is the intent of the General Assembly to annually appropriate funds to this reserve in amounts sufficient to meet anticipated cash requirements for each fiscal year of the Job Development Investment Grant Program established pursuant to G.S. 143B-437.52. Funds in the amount of $4.5 million were appropriated for fiscal year 2004-2005. At the end of fiscal year 2004-2005, the remaining balance of this reserve was $2.5 million.

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

General Fund Reserved Fund Balance	Balance June 30, 2004	Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2005
Savings	$ 267,057	$ 199,125	$ (153,541)	$ 312,641
Retirees' health premium	52,785	—	(52,785)	—
Repairs and renovations	76,797	125,000	(76,797)	125,000
Disproportionate share	1,511	28,903	(11,110)	19,304
Disaster relief	8,143	248,171	(44,635)	211,679
Executive order #22	11,732	—	(11,732)	—
One North Carolina fund	1,083	—	—	1,083
Job Development Investment Grant	—	4,500	(1,958)	2,542
Total	$ 419,108	$ 605,699	$ (352,558)	$ 672,249

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Combining Fund Statements and Schedules

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Nonmajor Governmental Funds

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005 *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	*Total Nonmajor Governmental Funds*
Assets				
Cash and cash equivalents	$ 949,081	$ 186,315	$ 458	$ 1,135,854
Investments	1,530,916	47,102	—	1,578,018
Securities lending collateral	755,509	782	27,615	783,906
Receivables, net:				
Taxes receivable	4,970	—	—	4,970
Accounts receivable	25,488	4,288	11	29,787
Intergovernmental receivable	5,553	1,275	—	6,828
Interest receivable	5,874	—	1	5,875
Due from other funds	9,000	618	—	9,618
Due from component units	7,279	—	—	7,279
Inventories	33,065	—	—	33,065
Prepaid items	170	—	—	170
Advances to component units	21,742	—	—	21,742
Notes receivable, net	314,998	—	—	314,998
Securities held in trust	38,225	—	—	38,225
Endowment investments	—	—	58,080	58,080
Total Assets	$ 3,701,870	$ 240,380	$ 86,165	$ 4,028,415
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities				
Accounts payable	$ 63,691	$ 28,924	$ —	$ 92,615
Accrued payroll	927	—	—	927
Intergovernmental payable	7,233	1,146	—	8,379
Claims payable	29,564	—	—	29,564
Obligations under securities lending	755,509	782	27,615	783,906
Due to fiduciary funds	47	—	—	47
Due to other funds	3,168	13	—	3,181
Due to component units	297,081	—	—	297,081
Deferred revenue	11,580	—	—	11,580
Deposits payable	8	1	—	9
Funds held for others	38,267	—	—	38,267
Total Liabilities	1,207,075	30,866	27,615	1,265,556
Fund Balances:				
Reserved	636,367	165,277	55,905	857,549
Unreserved	1,858,428	44,237	2,645	1,905,310
Total Fund Balances	2,494,795	209,514	58,550	2,762,859
Total Liabilities and Fund Balances	$ 3,701,870	$ 240,380	$ 86,165	$ 4,028,415

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

For the Fiscal Year Ended June 30, 2005 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	*Total Nonmajor Governmental Funds*
Revenues:				
Taxes:				
Individual income tax	$ 1,604	$ —	$ —	$ 1,604
Corporate income tax	78,356	—	—	78,356
Sales and use tax	25,213	—	—	25,213
Gasoline tax	60,281	—	—	60,281
Insurance tax	10,564	—	—	10,564
Other taxes	125,509	—	—	125,509
Federal funds	381,516	16,232	—	397,748
Local funds	18,612	935	—	19,547
Investment earnings	103,878	2,196	6,182	112,256
Interest earnings on loans	5,659	—	—	5,659
Sales and services	148,142	909	61	149,112
Rental and lease of property	3,546	3	—	3,549
Fees, licenses, and fines	194,853	—	2,188	197,041
Contributions, gifts, and grants	34,433	36,277	39	70,749
Funds escheated	49,684	—	—	49,684
Miscellaneous	13,347	1,971	—	15,318
Total revenues	1,255,197	58,523	8,470	1,322,190
Expenditures:				
Current:				
General government	67,135	—	—	67,135
Primary and secondary education	229,918	—	—	229,918
Higher education	813,072	1,839	30	814,941
Health and human services	85,100	—	4	85,104
Economic development	390,180	969	—	391,149
Environment and natural resources	345,169	14	653	345,836
Public safety, corrections, and regulation	352,742	—	—	352,742
Agriculture	7,218	—	—	7,218
Capital outlay	—	313,932	—	313,932
Debt service:				
Principal retirement	612	—	—	612
Interest and fees	860	3,328	—	4,188
Debt issuance costs	3,252	555	—	3,807
Total expenditures	2,295,258	320,637	687	2,616,582
Excess revenues over (under) expenditures	(1,040,061)	(262,114)	7,783	(1,294,392)
Other Financing Sources (Uses):				
Bonds issued	721,500	53,640	—	775,140
Certificates of participation issued	188,385	—	—	188,385
Premium on debt issued	81,973	2,818	—	84,791
Sale of capital assets	4,418	152	—	4,570
Transfers in	655,714	137,732	—	793,446
Transfers out	(494,999)	(4,344)	(4,886)	(504,229)
Total other financing sources (uses)	1,156,991	189,998	(4,886)	1,342,103
Net change in fund balances	116,930	(72,116)	2,897	47,711
Fund balances — July 1, as restated	2,373,628	281,630	55,653	2,710,911
Increase (decrease) in reserve for related assets	4,237	—	—	4,237
Fund balances — June 30	$ 2,494,795	$ 209,514	$ 58,550	$ 2,762,859

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NONMAJOR SPECIAL REVENUE FUNDS

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

The following are included in the nonmajor special revenue funds:

Escheat Fund
Health and Wellness Trust Fund
Tobacco Trust Fund
Clean Water Funds
Public School Bond Fund
Higher Education and Public Improvement Bond Funds
Public School Building Capital Fund
Clean Water Management Trust Fund
N.C. Infrastructure Finance Corporation
Natural Gas Funds
Prison Enterprises Fund
Educational Materials and School Buses Fund
Employment Security Commission Funds
Highway Patrol Fund
Employment and Training Administration Fund
Leaking Petroleum Underground Storage Tank Cleanup Fund
Ecosystem Enhancement Funds
Wildlife Resources Commission Fund
Natural Heritage Trust Fund
Wireless 911 Fund
Parks and Recreation Trust Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2005

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust Fund	Tobacco Trust Fund	Clean Water Funds	Public School Bond Fund	Higher Education and Public Improvement Bond Funds	Public School Building Capital Fund	Clean Water Management Trust Fund
Assets								
Cash and cash equivalents	$ 41,914	$ 44,944	$ 6,736	$ 38,990	$ 14,757	$ 309	$ 100,905	$ 121,820
Investments	506,448	—	—	7,239	1,419	720,395	—	—
Securities lending collateral	260,965	35,126	5,274	24,357	—	—	101,488	95,804
Receivables, net:								
Taxes receivable	—	—	—	—	—	—	—	—
Accounts receivable	—	—	16	67	—	—	—	—
Intergovernmental receivable	—	—	—	—	—	—	—	—
Interest receivable	97	131	—	756	39	1,823	304	—
Due from other funds	—	—	—	—	—	199	—	—
Due from component units	7,190	—	—	—	—	—	—	—
Inventories	—	—	—	—	—	—	—	—
Prepaid items	—	—	—	—	—	—	—	—
Advances to component units	21,742	—	—	—	—	—	—	—
Notes receivable, net	—	—	—	116,927	—	—	—	—
Securities held in trust	—	—	—	—	—	—	—	—
Total Assets	$838,356	$ 80,201	$ 12,026	$ 188,336	$ 16,215	$ 722,726	$202,697	$ 217,624
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities								
Accounts payable	$ —	$ 28	$ 1	$ 66	$ —	$ —	$ —	$ 201
Accrued payroll	—	—	—	—	—	—	—	—
Intergovernmental payable	—	—	—	—	—	—	—	281
Claims payable	29,564	—	—	—	—	—	—	—
Obligations under securities lending	260,965	35,126	5,274	24,357	—	—	101,488	95,804
Due to fiduciary funds	—	—	—	—	—	—	—	—
Due to other funds	—	—	—	—	—	—	—	7
Due to component units	27,255	—	—	—	—	243,359	—	—
Deferred revenue	10,418	—	—	—	—	—	—	—
Deposits payable	—	—	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—	—	—
Total Liabilities	328,202	35,154	5,275	24,423	—	243,359	101,488	96,293
Fund Balances:								
Reserved for:								
Inventories	—	—	—	—	—	—	—	—
Investments	—	—	—	—	—	—	—	—
Notes receivable	—	—	—	116,927	—	—	—	—
Prepaid items	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—
Loan and grant commitments	—	—	—	31,703	—	—	—	110,078
Other purposes	—	—	—	—	—	—	—	—
Unreserved:								
Undesignated	510,154	45,047	6,751	15,283	16,215	479,367	101,209	11,253
Total Fund Balances	510,154	45,047	6,751	163,913	16,215	479,367	101,209	121,331
Total Liabilities and Fund Balances	$838,356	$ 80,201	$ 12,026	$ 188,336	$ 16,215	$ 722,726	$202,697	$ 217,624

Exhibit C-3

N.C. Infrastructure Finance Corporation	Natural Gas Funds	Prison Enterprises Fund	Educational Materials and School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Ecosystem Enhancement Funds
$ —	$ 15,991	$ 24,893	$ 53,337	$ 10,289	$ 7,422	$ 46	$ 7,644	$ 63,658
268,920	22,542	—	—	—	—	—	—	—
—	30,170	—	—	—	1,896	—	5,178	37,873
—	—	—	—	—	—	—	3,417	—
—	—	2,132	35	967	452	1	552	—
—	—	366	827	614	31	—	—	—
—	55	—	—	—	—	—	4	—
—	—	5,756	—	—	—	—	—	—
—	—	8	—	—	—	—	—	—
—	—	13,329	11,047	288	4,316	—	—	—
—	—	—	—	101	—	—	—	—
—	—	—	—	—	—	—	—	—
—	177,458	—	—	—	—	—	688	—
—	—	—	—	—	—	—	—	—
$ 268,920	$ 246,216	$ 46,484	$ 65,246	$ 12,259	$ 14,117	$ 47	$ 17,483	$ 101,531
$ 3,229	$ —	$ 2,962	$ 28,300	$ 2,498	$ 1,907	$ 23	$ 8,985	$ 2,091
—	—	16	—	281	20	—	—	—
—	—	1	265	543	—	—	20	—
—	—	—	—	—	—	—	—	—
—	30,170	—	—	—	1,896	—	5,178	37,873
—	—	—	—	—	—	—	—	—
199	—	130	—	401	138	4	—	13
24,882	—	—	—	—	—	—	—	—
—	—	175	—	—	49	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
28,310	30,170	3,284	28,565	3,723	4,010	27	14,183	39,977
—	—	13,329	11,047	288	4,316	—	—	—
—	—	—	—	—	—	—	—	—
—	177,458	—	—	—	—	—	688	—
—	—	—	—	101	—	—	—	—
—	—	344	—	—	—	—	—	—
—	—	—	—	—	—	—	6,272	77,990
—	—	—	—	—	—	—	—	—
240,610	38,588	29,527	25,634	8,147	5,791	20	(3,660)	(16,436)
240,610	216,046	43,200	36,681	8,536	10,107	20	3,300	61,554
$ 268,920	$ 246,216	$ 46,484	$ 65,246	$ 12,259	$ 14,117	$ 47	$ 17,483	$ 101,531

Continued

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2005

Exhibit C-3

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Wireless 911 Fund	Parks and Recreation Trust Fund	Departmental Funds	*Total Nonmajor Special Revenue Funds*
Assets						
Cash and cash equivalents	$ 13,033	$ 24,187	$ 6,335	$ 39,439	$ 312,432	$ 949,081
Investments	—	—	—	—	3,953	1,530,916
Securities lending collateral	10,024	17,614	4,959	—	124,781	755,509
Receivables, net:						
Taxes receivable	—	—	—	—	1,553	4,970
Accounts receivable	608	355	7,164	117	13,022	25,488
Intergovernmental receivable	1,457	—	—	—	2,258	5,553
Interest receivable	23	50	13	—	2,579	5,874
Due from other funds	—	—	—	—	3,045	9,000
Due from component units	—	—	—	—	81	7,279
Inventories	1,130	—	—	—	2,955	33,065
Prepaid items	—	—	—	—	69	170
Advances to component units	—	—	—	—	—	21,742
Notes receivable, net	—	—	—	—	19,925	314,998
Securities held in trust	—	—	—	—	38,225	38,225
Total Assets	$ 26,275	$ 42,206	$ 18,471	$ 39,556	$ 524,878	$ 3,701,870
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities						
Accounts payable	$ 868	$ —	$ 11	$ —	$ 12,521	$ 63,691
Accrued payroll	239	—	—	—	371	927
Intergovernmental payable	—	—	4,591	—	1,532	7,233
Claims payable	—	—	—	—	—	29,564
Obligations under securities lending	10,024	17,614	4,959	—	124,781	755,509
Due to fiduciary funds	—	—	—	—	47	47
Due to other funds	214	—	1,277	517	268	3,168
Due to component units	—	—	—	—	1,585	297,081
Deferred revenue	—	—	—	—	938	11,580
Deposits payable	—	—	—	—	8	8
Funds held for others	—	—	—	—	38,267	38,267
Total Liabilities	11,345	17,614	10,838	517	180,318	1,207,075
Fund Balances:						
Reserved for:						
Inventories	1,130	—	—	—	2,955	33,065
Investments	—	—	—	—	14	14
Notes receivable	—	—	—	—	19,925	314,998
Prepaid items	—	—	—	—	69	170
Capital projects	—	—	—	—	—	344
Loan and grant commitments	—	14,159	—	13,722	37	253,961
Other purposes	13,800	—	—	—	20,015	33,815
Unreserved:						
Undesignated	—	10,433	7,633	25,317	301,545	1,858,428
Total Fund Balances	14,930	24,592	7,633	39,039	344,560	2,494,795
Total Liabilities and Fund Balances	$ 26,275	$ 42,206	$ 18,471	$ 39,556	$ 524,878	$ 3,701,870

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

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust Fund	Tobacco Trust Fund	Clean Water Funds	Public School Bond Fund	Higher Education and Public Improvement Bond Funds	Public School Building Capital Fund	Clean Water Management Trust Fund
Revenues:								
Taxes:								
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Corporate income tax	—	—	—	—	—	—	78,356	—
Sales and use tax	—	—	—	—	—	—	—	—
Gasoline tax	—	—	—	—	—	—	—	—
Insurance tax	—	—	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—	—	—
Federal funds	—	—	—	—	—	—	—	—
Local funds	—	—	—	—	—	—	—	—
Investment earnings	53,897	3,621	268	1,915	452	16,216	5,000	5,017
Interest earnings on loans	—	—	—	4,435	—	—	—	—
Sales and services	—	—	—	—	—	—	—	—
Rental and lease of property	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	—
Funds escheated	49,684	—	—	—	—	—	—	—
Miscellaneous	—	—	1	—	—	—	—	—
Total revenues	103,581	3,621	269	6,350	452	16,216	83,356	5,017
Expenditures:								
Current:								
General government	10,571	—	—	—	17	393	—	—
Primary and secondary education	—	—	—	—	15,170	—	52,733	—
Higher education	43,648	—	—	—	—	725,110	—	—
Health and human services	—	16,346	—	—	—	—	—	—
Economic development	—	—	—	35,994	—	—	—	—
Environment and natural resources	—	—	—	43,326	—	—	—	50,679
Public safety, corrections, and regulation	—	—	—	—	—	—	—	—
Agriculture	—	—	2,137	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—
Debt issuance costs	—	—	—	—	—	2,182	—	—
Total expenditures	54,219	16,346	2,137	79,320	15,187	727,685	52,733	50,679
Excess revenues over (under) expenditures	49,362	(12,725)	(1,868)	(72,970)	(14,735)	(711,469)	30,623	(45,662)
Other Financing Sources (Uses):								
Bonds issued	—	—	—	—	—	705,500	—	—
Certificates of participation issued	—	—	—	—	—	—	—	—
Premium on debt issued	—	—	—	—	—	68,046	—	—
Sale of capital assets	—	—	—	—	—	—	—	—
Transfers in	—	37,160	37,160	83,329	474	413	26	68,135
Transfers out	(14,885)	(70,909)	(35,000)	(25,203)	—	(139,443)	(4,398)	(6,698)
Total other financing sources (uses)	(14,885)	(33,749)	2,160	58,126	474	634,516	(4,372)	61,437
Net change in fund balances	34,477	(46,474)	292	(14,844)	(14,261)	(76,953)	26,251	15,775
Fund balances — July 1, as restated	475,677	91,521	6,459	178,757	30,476	556,320	74,958	105,556
Increase (decrease) in reserve for related assets	—	—	—	—	—	—	—	—
Fund balances — June 30	$ 510,154	$ 45,047	$ 6,751	$ 163,913	$16,215	$ 479,367	$ 101,209	$ 121,331

Exhibit C-4

N.C. Infrastructure Finance Corporation	Natural Gas Funds	Prison Enterprises Fund	Educational Materials and School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	Ecosystem Enhancement Funds
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	50,228	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	186,195	1,250	113,497	—	—
—	—	—	—	16,892	38	—	—	—
2,306	2,350	—	—	—	141	—	210	3,358
—	—	—	—	—	—	—	8	—
—	—	79,288	9,235	—	1,386	2	—	—
—	—	—	1,871	—	—	—	—	—
—	5,730	—	—	4,378	1,395	—	8,656	51,892
—	—	—	—	8,158	981	—	—	—
—	—	—	—	—	—	—	—	—
—	—	495	—	2,167	251	—	80	—
2,306	8,080	79,783	11,106	217,790	5,442	113,499	59,182	55,250
—	—	—	—	—	—	—	—	—
—	—	—	122,958	—	—	—	—	—
42,107	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	7,671	—	—	223,834	—	113,397	—	—
—	—	—	—	—	—	—	43,530	55,385
—	—	74,041	—	—	170,504	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
51	—	—	—	—	—	—	—	—
1,070	—	—	—	—	—	—	—	—
43,228	7,671	74,041	122,958	223,834	170,504	113,397	43,530	55,385
(40,922)	409	5,742	(111,852)	(6,044)	(165,062)	102	15,652	(135)
—	16,000	—	—	—	—	—	—	—
188,385	—	—	—	—	—	—	—	—
13,893	34	—	—	—	—	—	—	—
—	—	60	1,009	—	3,100	—	—	—
—	—	253	103,137	3,705	158,054	—	6,543	50
(43,415)	(2,057)	(3,276)	(679)	(121)	(1,916)	(103)	(4,048)	(7)
158,863	13,977	(2,963)	103,467	3,584	159,238	(103)	2,495	43
117,941	14,386	2,779	(8,385)	(2,460)	(5,824)	(1)	18,147	(92)
122,669	201,660	39,054	42,354	11,023	15,637	21	(14,847)	61,646
—	—	1,367	2,712	(27)	294	—	—	—
$ 240,610	$ 216,046	$ 43,200	$ 36,681	$ 8,536	$ 10,107	$ 20	$ 3,300	$ 61,554

Continued

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

For the Fiscal Year Ended June 30, 2005 — *Exhibit C-4*

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Wireless 911 Fund	Parks and Recreation Trust Fund	Departmental Funds	*Total Nonmajor Special Revenue Funds*
Revenues:						
Taxes:						
Individual income tax	$ —	$ —	$ —	$ —	$ 1,604	$ 1,604
Corporate income tax	—	—	—	—	—	78,356
Sales and use tax	16,921	—	—	—	8,292	25,213
Gasoline tax	1,617	—	—	—	8,436	60,281
Insurance tax	—	—	—	—	10,564	10,564
Other taxes	—	14,914	48,388	44,743	17,464	125,509
Federal funds	10,701	—	—	—	69,873	381,516
Local funds	218	—	—	—	1,464	18,612
Investment earnings	632	812	659	—	7,024	103,878
Interest earnings on loans	—	—	—	—	1,216	5,659
Sales and services	3,354	—	434	—	54,443	148,142
Rental and lease of property	76	—	—	—	1,599	3,546
Fees, licenses, and fines	18,412	3,927	—	1,297	99,166	194,853
Contributions, gifts, and grants	1,111	—	—	47	24,136	34,433
Funds escheated	—	—	—	—	—	49,684
Miscellaneous	49	—	—	—	10,304	13,347
Total revenues	53,091	19,653	49,481	46,087	315,585	1,255,197
Expenditures:						
Current:						
General government	—	—	—	—	56,154	67,135
Primary and secondary education	—	—	—	—	39,057	229,918
Higher education	—	—	—	—	2,207	813,072
Health and human services	—	—	—	—	68,754	85,100
Economic development	—	—	—	—	9,284	390,180
Environment and natural resources	55,265	12,443	—	32,323	52,218	345,169
Public safety, corrections, and regulation	—	—	34,113	—	74,084	352,742
Agriculture	—	—	—	—	5,081	7,218
Debt service:						
Principal retirement	435	—	—	—	177	612
Interest and fees	794	—	—	—	15	860
Debt issuance costs	—	—	—	—	—	3,252
Total expenditures	56,494	12,443	34,113	32,323	307,031	2,295,258
Excess revenues over (under) expenditures	(3,403)	7,210	15,368	13,764	8,554	(1,040,061)
Other Financing Sources (Uses):						
Bonds issued	—	—	—	—	—	721,500
Certificates of participation issued	—	—	—	—	—	188,385
Premium on debt issued	—	—	—	—	—	81,973
Sale of capital assets	167	—	—	—	82	4,418
Transfers in	3,537	2,019	—	11,381	140,338	655,714
Transfers out	(3,724)	(367)	(30,443)	(14,284)	(94,023)	(494,999)
Total other financing sources (uses)	(20)	1,652	(30,443)	(2,903)	46,397	1,156,991
Net change in fund balances	(3,423)	8,862	(15,075)	10,861	54,951	116,930
Fund balances — July 1, as restated	18,727	15,730	22,708	28,178	289,344	2,373,628
Increase (decrease) in reserve for related assets	(374)	—	—	—	265	4,237
Fund balances — June 30	$ 14,930	$ 24,592	$ 7,633	$ 39,039	$ 344,560	$ 2,494,795

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

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Employment and Training Administration Fund				Clean Water Funds			
	Budgeted Amounts			Variance with Final Budget	Budgeted Amounts			Variance with Final Budget
Revenues:	Original	Final	Actual		Original	Final	Actual	
Departmental:								
Federal funds	$ 78,804	$ 186,483	$ 113,496	$ (72,987)	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—
Intra-governmental transactions	12	—	3	3	12	627	850	223
Sales and services	—	—	2	2	—	—	—	—
Sale, rental and lease of property	1	1	—	(1)	—	—	—	—
Fees, licenses and fines	—	—	—	—	—	—	—	—
Contributions, gifts and grants	—	—	—	—	—	—	—	—
Miscellaneous	—	—	—	—	—	647	680	33
Total revenues	78,817	186,484	113,501	(72,983)	12	1,274	1,530	256
Expenditures:								
Current:								
General government	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—
Environment and natural resources	—	—	—	—	—	—	—	—
Economic development	78,817	186,484	113,496	72,988	2,207	8,813	3,257	5,556
Public safety and corrections	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—
Total expenditures	78,817	186,484	113,496	72,988	2,207	8,813	3,257	5,556
Excess revenues over (under) expenditures	$ —	$ —	5	$ 5	$ (2,195)	$ (7,539)	(1,727)	$ 5,812
Unreserved fund balances (budgetary basis) at July 1, 2004			—				7,539	
Restatements			—				—	
Unreserved fund balances (budgetary basis) at June 30, 2005			$ 5				$ 5,812	

Exhibit C-5

Employment Security Commission Funds				Highway Patrol Fund			
Budgeted Amounts			*Variance with Final*	*Budgeted Amounts*			*Variance with Final*
Original	*Final*	*Actual*	*Budget*	*Original*	*Final*	*Actual*	*Budget*
$ 118,314	$ 192,440	$ 186,503	$ (5,937)	$ —	$ 1,714	$ 1,253	$ (461)
8,600	17,200	17,151	(49)	—	38	38	—
2,715	8,217	8,217	—	—	1,074	941	(133)
30,287	27,205	26,856	(349)	136,670	185,407	159,319	(26,088)
—	—	—	—	1,544	1,968	1,343	(625)
—	—	—	—	1,900	3,266	2,836	(430)
—	—	—	—	—	171	530	359
—	—	—	—	—	40	40	—
1,550	2,450	2,441	(9)	1	188	167	(21)
161,466	247,512	241,168	(6,344)	140,115	193,866	166,467	(27,399)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
161,466	247,512	242,584	4,928	—	—	—	—
—	—	—	—	140,115	196,678	171,916	24,762
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
161,466	247,512	242,584	4,928	140,115	196,678	171,916	24,762
$ —	$ —	(1,416)	$ (1,416)	$ —	$ (2,812)	(5,449)	$ (2,637)
		2,876				10,367	
		—				—	
		$ 1,460				$ 4,918	

Continued

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

For the Fiscal Year Ended June 30, 2005 *Exhibit C-5*

(Dollars in Thousands)

	Wildlife Resources Commission Fund				Departmental Funds			
	Budgeted Amounts			*Variance with Final Budget*	*Budgeted Amounts*			*Variance with Final Budget*
Revenues:	*Original*	*Final*	*Actual*		*Original*	*Final*	*Actual*	
Departmental:								
Federal funds	$ 7,415	$ 10,720	$ 10,450	$ (270)	$ 44,526	$ 61,830	$ 90,632	$ 28,802
Local funds	—	185	218	33	110	562	7	(555)
Inter-agency grants and allocations	266	404	452	48	1,270	3,433	1,928	(1,505)
Intra-governmental transactions	36,206	50,061	50,532	471	72,375	161,683	159,365	(2,318)
Sales and services	1,497	1,973	3,005	1,032	4,555	4,357	2,500	(1,857)
Sale, rental and lease of property	208	169	169	—	87	97	98	1
Fees, licenses and fines	17,217	18,505	18,508	3	78,023	89,964	85,674	(4,290)
Contributions, gifts and grants	27	129	286	157	444	4,543	2,512	(2,031)
Miscellaneous	28	468	453	(15)	1,212	2,373	3,601	1,228
Total revenues	62,864	82,614	84,073	1,459	202,602	328,842	346,317	17,475
Expenditures:								
Current:								
General government	—	—	—	—	56,728	139,385	90,320	49,065
Health and human services	—	—	—	—	45,451	57,853	57,410	443
Environment and natural resources	63,256	90,049	86,763	3,286	38,618	55,058	37,074	17,984
Economic development	—	—	—	—	29,445	76,106	36,318	39,788
Public safety and corrections	—	—	—	—	31,270	40,924	39,663	1,261
Debt service								
Principal retirement	—	435	435	—	—	—	—	—
Interest and fees	—	794	794	—	—	—	—	—
Total expenditures	63,256	91,278	87,992	3,286	201,512	369,326	260,785	108,541
Excess revenues over (under) expenditures	$ (392)	$ (8,664)	(3,919)	$ 4,745	$ 1,090	$ (40,484)	85,532	$126,016
Unreserved fund balances (budgetary basis) at July 1, 2004			16,952				144,526	
Restatements			—				(306)	
Unreserved fund balances (budgetary basis) at June 30, 2005			$ 13,033				$229,752	

Exhibit C-5

Totals - Budgeted Special Revenue Funds			
Budgeted Amounts			Variance with Final Budget
Original	Final	Actual	
$ 249,059	$ 453,187	$ 402,334	$ (50,853)
8,710	17,985	17,414	(571)
4,251	13,128	11,538	(1,590)
275,562	424,983	396,925	(28,058)
7,596	8,298	6,850	(1,448)
2,196	3,533	3,103	(430)
95,240	108,640	104,712	(3,928)
471	4,712	2,838	(1,874)
2,791	6,126	7,342	1,216
645,876	1,040,592	953,056	(87,536)
56,728	139,385	90,320	49,065
45,451	57,853	57,410	443
101,874	145,107	123,837	21,270
271,935	518,915	395,655	123,260
171,385	237,602	211,579	26,023
—	435	435	—
—	794	794	—
647,373	1,100,091	880,030	220,061
$ (1,497)	$ (59,499)	73,026	$ 132,525
		182,260	
		(306)	
		$ 254,980	

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NONMAJOR CAPITAL PROJECTS FUNDS

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

The following activities are included in the nonmajor capital projects funds:

Capital Projects Fund
N.C. Infrastructure Finance Corporation

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

June 30, 2005 *Exhibit C-6*

(Dollars in Thousands)

	Capital Projects Fund	N.C. Infrastructure Finance Corporation	*Total Nonmajor Capital Projects Funds*
Assets			
Cash and cash equivalents	$ 182,900	$ 3,415	$ 186,315
Investments	—	47,102	47,102
Securities lending collateral	782	—	782
Receivables, net:			
Accounts receivable	1,059	3,229	4,288
Intergovernmental receivable	1,275	—	1,275
Due from other funds	618	—	618
Total Assets	$ 186,634	$ 53,746	$ 240,380
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities			
Accounts payable	$ 13,260	$ 15,664	$ 28,924
Intergovernmental payable	1,146	—	1,146
Obligations under securities lending transactions	782	—	782
Due to other funds	13	—	13
Deposits payable	1	—	1
Total Liabilities	15,202	15,664	30,866
Fund Balances:			
Reserved for:			
Capital projects	40,031	125,246	165,277
Unreserved:			
Undesignated	131,401	(87,164)	44,237
Total Fund Balances	171,432	38,082	209,514
Total Liabilities and Fund Balances	$ 186,634	$ 53,746	$ 240,380

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

For the Fiscal Year Ended June 30, 2005 *Exhibit C-7*

(Dollars in Thousands)

	Capital Projects Fund	N.C. Infrastructure Finance Corporation	*Total Nonmajor Capital Projects Funds*
Revenues:			
Federal funds	$ 16,163	$ 69	$ 16,232
Local funds	935	—	935
Investment earnings	37	2,159	2,196
Sales and services	909	—	909
Rental and lease of property	3	—	3
Contributions, gifts, and grants	36,277	—	36,277
Miscellaneous	1,971	—	1,971
Total revenues	56,295	2,228	58,523
Expenditures:			
Current:			
Higher education	1,839	—	1,839
Economic development	969	—	969
Environment & natural resources	14	—	14
Capital outlay	116,217	197,715	313,932
Debt service:			
Interest and fees	—	3,328	3,328
Debt issuance costs	—	555	555
Total expenditures	119,039	201,598	320,637
Excess revenues over (under) expenditures	(62,744)	(199,370)	(262,114)
Other Financing Sources (Uses):			
Bonds issued	—	53,640	53,640
Premium on debt issued	—	2,818	2,818
Sale of capital assets	152	—	152
Transfers in	114,676	23,056	137,732
Transfers out	(3,190)	(1,154)	(4,344)
Total other financing sources (uses)	111,638	78,360	189,998
Net change in fund balances	48,894	(121,010)	(72,116)
Fund balances — July 1	122,538	159,092	281,630
Fund balances — June 30	$ 171,432	$ 38,082	$ 209,514

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NONMAJOR PERMANENT FUNDS

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

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS

June 30, 2005

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	*Total Nonmajor Permanent Funds*
Assets			
Cash and cash equivalents	$ 208	$ 250	$ 458
Receivables, net:			
Accounts receivable	11	—	11
Interest receivable	—	1	1
Securities lending collateral	27,419	196	27,615
Endowment investments	57,508	572	58,080
Total Assets	$ 85,146	$ 1,019	$ 86,165
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending	27,419	196	27,615
Total Liabilities	27,419	196	27,615
Fund Balances:			
Reserved for:			
Wildlife endowment	55,152	—	55,152
Loan and grant commitments	—	753	753
Unreserved:			
Undesignated	2,575	70	2,645
Total Fund Balances	57,727	823	58,550
Total Liabilities and Fund Balances	$ 85,146	$ 1,019	$ 86,165

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

For the Fiscal Year Ended June 30, 2005 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	*Total Nonmajor Permanent Funds*
Revenues:			
Investment earnings	$ 6,144	$ 38	$ 6,182
Sales and services	61	—	61
Fees, licenses, and fines	2,188	—	2,188
Contributions, gifts, and grants	39	—	39
Total revenues	8,432	38	8,470
Expenditures:			
Current:			
Higher education	—	30	30
Health and human services	—	4	4
Environment and natural resources	653	—	653
Total expenditures	653	34	687
Excess revenues over (under) expenditures	7,779	4	7,783
Other Financing Sources (Uses):			
Transfers out	(4,886)	—	(4,886)
Total other financing sources (uses)	(4,886)	—	(4,886)
Net change in fund balances	2,893	4	2,897
Fund balances — July 1	54,834	819	55,653
Fund balances — June 30	$ 57,727	$ 823	$ 58,550

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PROPRIETARY FUNDS

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NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to report activities for which a fee is charged to external users for goods or services.

The following activities are included in the nonmajor enterprise funds:

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

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2005

(Dollars in Thousands)

	Public School Insurance	Town of Butner Water and Sewer	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation
Assets						
Current Assets:						
Cash and cash equivalents	$ 9,004	$ 4,978	$ 4,312	$ 974	$ 1,195	$ 8,805
Investments	24,904	—	—	—	—	13,708
Securities lending collateral	18,855	3,905	—	—	—	13,047
Receivables:						
Accounts receivable, net	—	121	23	2	15	15
Interest receivable	20	12	—	—	—	17
Premiums receivable	1,558	—	—	—	—	—
Contributions receivable, net	—	—	—	1	—	—
Due from other funds	—	—	—	—	—	—
Inventories	—	161	74	228	7	—
Prepaid items	1,646	—	—	84	—	—
Total current assets	55,987	9,177	4,409	1,289	1,217	35,592
Noncurrent Assets:						
Restricted/designated cash and cash equivalents	—	2,360	—	—	—	—
Investments	—	—	—	217	—	—
Restricted investments	—	—	—	3,264	—	—
Deferred charges	—	112	—	—	—	—
Capital assets-nondepreciable	—	1,312	1,379	629	1,087	—
Capital assets-depreciable, net	—	26,067	9,270	2,196	6,358	—
Total noncurrent assets	—	29,851	10,649	6,306	7,445	—
Total Assets	55,987	39,028	15,058	7,595	8,662	35,592
Liabilities						
Current Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	13	48	155	29	14	28
Accrued payroll	2	—	37	13	6	—
Claims payable	1,229	—	—	—	—	10,114
Obligations under securities lending	18,855	3,905	—	—	—	13,047
Interest payable	—	34	—	—	—	—
Due to other funds	2	1	4	—	2	—
Unearned revenue	2,957	2	617	2	—	1,836
Deposits payable	—	77	—	—	—	—
Notes payable	—	112	—	—	—	—
Bonds payable - current	—	270	—	—	—	—
Compensated absences - current	5	17	14	13	5	—
Total current liabilities	23,063	4,466	827	57	27	25,025
Noncurrent Liabilities:						
Notes payable	—	1,457	—	—	—	—
Bonds payable, net	—	8,800	—	—	—	—
Compensated absences	61	118	142	38	53	—
Total noncurrent liabilities	61	10,375	142	38	53	—
Total Liabilities	23,124	14,841	969	95	80	25,025
Net Assets						
Invested in capital assets, net of related debt	—	16,741	10,649	2,825	7,445	—
Restricted for:						
Capital outlay	—	400	—	2,103	—	—
Other purposes	—	—	—	1,161	—	—
Unrestricted	32,863	7,046	3,440	1,411	1,137	10,567
Total Net Assets	$ 32,863	$ 24,187	$ 14,089	$ 7,500	$ 8,582	$ 10,567

Exhibit D-1

Utilities Commission	State Banking Commission	ABC Commission	Departmental Funds	*Total Nonmajor Enterprise Funds*
$ 8,116	$ 5,564	$ 5,272	$ 1,377	$ 49,597
—	—	—	—	38,612
6,340	—	—	—	42,147
2,178	13	1,609	9	3,985
—	—	—	—	49
—	—	—	—	1,558
—	—	—	—	1
—	—	—	1	1
38	—	18	49	575
—	—	—	—	1,730
16,672	5,577	6,899	1,436	138,255
—	—	—	—	2,360
—	—	—	—	217
—	—	—	—	3,264
—	—	—	—	112
—	—	550	—	4,957
257	80	3,125	2,202	49,555
257	80	3,675	2,202	60,465
16,929	5,657	10,574	3,638	198,720
70	73	313	24	767
2	1	4	2	67
—	—	—	—	11,343
6,340	—	—	—	42,147
—	—	—	—	34
11	5	9	1	35
—	1,378	—	124	6,916
—	—	—	—	77
—	—	—	—	112
—	—	—	—	270
64	33	11	4	166
6,487	1,490	337	155	61,934
—	—	—	—	1,457
—	—	—	—	8,800
909	471	163	48	2,003
909	471	163	48	12,260
7,396	1,961	500	203	74,194
257	80	3,675	2,202	43,874
—	—	—	—	2,503
—	—	—	—	1,161
9,276	3,616	6,399	1,233	76,988
$ 9,533	$ 3,696	$ 10,074	$ 3,435	$ 124,526

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

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Public School Insurance	Town of Butner Water and Sewer	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation
Operating Revenues:						
Sales and services	$ —	$ —	$ 145	$ 706	$ 18	$ —
Sales and services used as security for bonds, net	—	3,531	—	—	—	—
Rental and lease earnings	—	3	3,688	—	594	—
Fees, licenses and fines	—	14	8,394	1,434	732	—
Insurance premiums	13,326	—	—	—	—	2,667
Miscellaneous	—	18	—	91	—	—
Total operating revenues	13,326	3,566	12,227	2,231	1,344	2,667
Operating Expenses:						
Personal services	493	1,360	3,528	957	645	—
Supplies and materials	1	150	744	44	42	—
Services	75	669	5,002	819	288	648
Cost of goods sold	—	—	—	331	—	—
Depreciation/amortization	—	1,665	527	127	293	—
Claims	2,822	—	—	—	—	5,594
Insurance and bonding	2,380	6	135	18	35	890
Other	2	283	822	54	31	—
Total operating expenses	5,773	4,133	10,758	2,350	1,334	7,132
Operating income (loss)	7,553	(567)	1,469	(119)	10	(4,465)
Nonoperating Revenues (Expenses):						
Noncapital grants	—	—	—	—	—	—
Noncapital gifts	—	—	134	—	—	—
Investment earnings (loss)	2,893	214	—	199	—	1,845
Interest and fees	—	(47)	—	—	—	—
Insurance recoveries	—	—	7	—	8	—
Gain (loss) on sale of equipment	—	79	(1)	—	—	—
Miscellaneous	(372)	(79)	4	—	2	(303)
Total nonoperating revenues (expenses)	2,521	167	144	199	10	1,542
Income (loss) before contributions and transfers	10,074	(400)	1,613	80	20	(2,923)
Capital contributions	—	400	—	52	—	—
Transfers in	—	—	2,087	—	14	866
Transfers out	—	(258)	(3,111)	—	(2)	—
Change in net assets	10,074	(258)	589	132	32	(2,057)
Net assets — July 1, as restated	22,789	24,445	13,500	7,368	8,550	12,624
Net assets — June 30	$ 32,863	$ 24,187	$ 14,089	$ 7,500	$ 8,582	$ 10,567

Exhibit D-2

Utilities Commission	State Banking Commission	ABC Commission	Departmental Funds	*Total Nonmajor Enterprise Funds*
$ 23	$ 1	$ 5	$ 139	$ 1,037
—	—	—	—	3,531
—	—	—	768	5,053
15,649	8,972	7,527	858	43,580
—	—	—	—	15,993
34	—	12	—	155
15,706	8,973	7,544	1,765	69,349
9,749	4,871	1,843	783	24,229
38	38	24	195	1,276
689	2,193	4,063	562	15,008
—	—	—	76	407
128	8	119	70	2,937
—	—	—	—	8,416
1	1	14	35	3,515
1,028	844	159	89	3,312
11,633	7,955	6,222	1,810	59,100
4,073	1,018	1,322	(45)	10,249
224	—	—	—	224
—	—	—	68	202
298	—	—	—	5,449
—	—	—	—	(47)
—	—	—	—	15
(7)	(7)	(32)	—	32
(118)	—	1	2	(863)
397	(7)	(31)	70	5,012
4,470	1,011	1,291	25	15,261
—	—	—	—	452
—	—	—	435	3,402
(1,133)	(143)	(108)	(73)	(4,828)
3,337	868	1,183	387	14,287
6,196	2,828	8,891	3,048	110,239
$ 9,533	$ 3,696	$ 10,074	$ 3,435	$ 124,526

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Public School Insurance	Town of Butner Water and Sewer	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation
Cash Flows from Operating Activities:						
Receipts from customers	$ 12,588	$ 3,071	$ 12,332	$ 2,359	$ 1,338	$ 3,500
Receipts from other funds	—	542	—	—	—	—
Payments to suppliers	(2,451)	(596)	(6,758)	(1,250)	(410)	(1,524)
Payments to employees	(489)	(1,370)	(3,554)	(975)	(654)	—
Payments for benefits and claims	(5,542)	—	—	—	—	(5,266)
Payments to other funds	—	(256)	—	—	—	—
Other receipts (payments)	(1)	(248)	4	—	2	—
Net cash flows provided (used) by operating activities	4,105	1,143	2,024	134	276	(3,290)
Cash Provided From (Used For) Noncapital Financing Activities:						
Grants	—	—	—	—	—	—
Transfers from other funds	—	—	—	—	—	866
Transfers to other funds	—	(258)	(3,111)	—	(2)	—
Gifts	—	—	134	—	—	—
Total cash provided from (used for) noncapital financing activities	—	(258)	(2,977)	—	(2)	866
Cash Provided From (Used For) Capital Financing Activities:						
Acquisition and construction of capital assets	—	(286)	(76)	(42)	(45)	—
Proceeds from the sale of capital assets	—	79	—	—	—	—
Capital contributions	—	400	—	52	—	—
Principal paid on capital debt	—	(255)	—	—	—	—
Interest paid on capital debt	—	(415)	—	—	—	—
Payment to bond escrow agent	—	(42)	—	—	—	—
Insurance recoveries	—	—	7	—	8	—
Total cash provided from (used for) capital financing activities	—	(519)	(69)	10	(37)	—
Cash Provided From (Used For) Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments	—	96	—	3,056	—	—
Purchase of non-State Treasurer investments	—	—	—	(3,222)	—	—
Investment earnings (loss)	196	134	—	176	—	275
Total cash provided from (used for) investment activities	196	230	—	10	—	275
Net increase (decrease) in cash and cash equivalents	4,301	596	(1,022)	154	237	(2,149)
Cash and cash equivalents at July 1	4,703	6,742	5,334	820	958	10,954
Cash and cash equivalents at June 30	$ 9,004	$ 7,338	$ 4,312	$ 974	$ 1,195	$ 8,805
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:						
Operating income (loss)	$ 7,553	$ (567)	$ 1,469	$ (119)	$ 10	$ (4,465)
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation/amortization	—	1,665	527	127	293	—
Restatements and adjustments to cash	—	—	—	—	—	6
Nonoperating miscellaneous income (expense)	—	—	4	—	2	—
(Increases) decreases in assets:						
Receivables	(821)	63	45	129	(6)	(13)
Due from other funds	—	—	—	—	—	—
Inventories	—	(3)	(21)	23	(1)	—
Prepaid items	85	—	—	4	—	26
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities	(2,795)	(6)	(47)	(4)	(15)	311
Due to other funds	(1)	—	(16)	—	1	—
Compensated absences	1	(11)	2	(25)	(8)	—
Unearned revenue	83	—	61	(1)	—	845
Deposits payable	—	2	—	—	—	—
Total cash provided from (used for) operations	$ 4,105	$ 1,143	$ 2,024	$ 134	$ 276	$ (3,290)
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 1,494	$ —	$ —	$ —	$ —	$ 822
Transferred assets	—	—	2,087	—	14	—
Change in construction in progress as a result of accrual of accounts payable	—	2	—	—	—	—
Assets acquired through the assumption of a liability	18,855	5,474	—	—	—	13,047
Change in fair value of investments	822	—	—	23	—	453

Exhibit D-3

Utilities Commission	State Banking Commission	ABC Commission	Departmental Funds	*Total Nonmajor Enterprise Funds*
$ 13,503	$ 9,080	$ 6,956	$ 1,765	$ 66,492
—	—	—	(1)	541
(980)	(2,567)	(4,243)	(1,013)	(21,792)
(9,925)	(4,930)	(1,833)	(809)	(24,539)
—	—	—	—	(10,808)
—	—	—	—	(256)
(754)	(619)	(21)	2	(1,635)
1,844	964	859	(56)	8,003
224	—	—	—	224
—	—	—	—	866
(1,133)	(143)	(108)	(73)	(4,828)
—	—	—	68	202
(909)	(143)	(108)	(5)	(3,536)
—	(7)	(31)	(14)	(501)
—	—	—	—	79
—	—	—	—	452
—	—	—	—	(255)
—	—	—	—	(415)
—	—	—	—	(42)
—	—	—	—	15
—	(7)	(31)	(14)	(667)
—	—	—	—	3,152
—	—	—	—	(3,222)
196	—	—	—	977
196	—	—	—	907
1,131	814	720	(75)	4,707
6,985	4,750	4,552	1,452	47,250
$ 8,116	$ 5,564	$ 5,272	$ 1,377	$ 51,957
$ 4,073	$ 1,018	$ 1,322	$ (45)	$ 10,249
128	8	119	70	2,937
—	—	—	—	6
—	—	1	2	9
(2,169)	(7)	(577)	3	(3,353)
—	—	—	(1)	(1)
(6)	—	(4)	(32)	(44)
—	—	—	—	115
(6)	(111)	(17)	(33)	(2,723)
(5)	1	3	1	(16)
(171)	(59)	12	(17)	(276)
—	114	—	(4)	1,098
—	—	—	—	2
$ 1,844	$ 964	$ 859	$ (56)	$ 8,003
$ —	$ —	$ —	$ —	$ 2,316
—	—	—	435	2,536
—	—	—	—	2
6,340	—	—	—	43,716
—	—	—	—	1,298

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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:

Office of the State Controller:
Worker's Compensation Program

Department of Administration:
Motor Fleet Management
Mail Service Center
Temporary Solutions
Surplus Property

Office of the Governor:
Computing Services
State Telecommunications Services

Department of Insurance:
State Property Fire Insurance

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2005

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Assets					
Current Assets:					
Cash and cash equivalents	$ 1,356	$ 20,066	$ 9,349	$ —	$ 1,556
Investments	—	21,482	—	—	—
Securities lending collateral	—	25,977	—	—	—
Receivables:					
Accounts receivable, net	2,862	—	2,346	694	914
Interest receivable	—	47	—	—	—
Premiums receivable	—	126	—	—	—
Due from fiduciary funds	—	—	—	—	—
Due from other funds	—	—	4,605	—	3
Due from component units	—	—	716	—	—
Inventories	—	—	176	14	—
Prepaid items	—	—	—	—	—
Total current assets	4,218	67,698	17,192	708	2,473
Noncurrent Assets:					
Capital assets-nondepreciable	—	—	418	—	—
Capital assets-depreciable, net	—	—	63,426	382	—
Total noncurrent assets	—	—	63,844	382	—
Total Assets	4,218	67,698	81,036	1,090	2,473
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	—	—	3,502	24	11
Accrued payroll	—	—	11	35	456
Intergovernmental payable	—	—	—	—	—
Claims payable	—	1,681	—	—	—
Obligations under securities lending	—	25,977	—	—	—
Due to other funds	—	—	3	756	1
Unearned revenue	—	3,121	—	—	—
Compensated absences - current	—	26	13	14	1
Total current liabilities	—	30,805	3,529	829	469
Noncurrent Liabilities:					
Compensated absences	—	198	125	136	13
Total noncurrent liabilities	—	198	125	136	13
Total Liabilities	—	31,003	3,654	965	482
Net Assets					
Invested in capital assets, net of related debt	—	—	63,844	382	—
Unrestricted	4,218	36,695	13,538	(257)	1,991
Total Net Assets	$ 4,218	$ 36,695	$ 77,382	$ 125	$ 1,991

Exhibit E-1

Computing Services	State Telecommunications Services	Surplus Property	*Totals*
$ 13,227	$ 8,938	$ 2,227	$ 56,719
—	—	—	21,482
—	—	—	25,977
2,697	7,704	19	17,236
—	—	—	47
—	—	—	126
1	3	—	4
5,259	4,940	713	15,520
31	385	—	1,132
—	—	—	190
11,099	4,093	—	15,192
32,314	26,063	2,959	153,625
3,868	—	19	4,305
20,593	3,722	108	88,231
24,461	3,722	127	92,536
56,775	29,785	3,086	246,161
2,188	105	1,192	7,022
40	8	—	550
4,501	108	1	4,610
—	—	—	1,681
—	—	—	25,977
441	53	316	1,570
—	—	—	3,121
154	72	10	290
7,324	346	1,519	44,821
1,685	790	92	3,039
1,685	790	92	3,039
9,009	1,136	1,611	47,860
24,461	3,722	127	92,536
23,305	24,927	1,348	105,765
$ 47,766	$ 28,649	$ 1,475	$ 198,301

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

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Operating Revenues:					
Sales and services	$ 40,246	$ —	$ 36,352	$ 3,831	$ 9,931
Fees, licenses and fines	—	—	—	—	—
Insurance premiums	—	16,927	—	—	—
Miscellaneous	—	—	45	1	—
Total operating revenues	40,246	16,927	36,397	3,832	9,931
Operating Expenses:					
Personal services	—	1,625	1,978	2,666	9,784
Supplies and materials	—	8	10,263	87	11
Services	40,095	166	2,296	802	53
Cost of goods sold	—	—	1,629	—	—
Depreciation/amortization	—	—	17,824	81	1
Claims	—	1,451	—	—	—
Insurance and bonding	—	9,841	2,201	—	—
Other	—	70	14	95	31
Total operating expenses	40,095	13,161	36,205	3,731	9,880
Operating income (loss)	151	3,766	192	101	51
Nonoperating Revenues (Expenses):					
Investment earnings	—	3,257	—	—	—
Insurance recoveries	—	—	159	—	—
Gain (loss) on sale of equipment	—	—	(1,222)	—	—
Miscellaneous	—	(610)	—	—	—
Total nonoperating revenues (expenses)	—	2,647	(1,063)	—	—
Income (loss) before contributions and transfers	151	6,413	(871)	101	51
Transfers in	106	—	—	—	—
Transfers out	(31)	(1)	—	(30)	—
Change in net assets	226	6,412	(871)	71	51
Net assets — July 1, as restated	3,992	30,283	78,253	54	1,940
Net assets — June 30	$ 4,218	$ 36,695	$ 77,382	$ 125	$ 1,991

Exhibit E-2

Computing Services	State Telecommunications Services	Surplus Property	*Totals*
$ 63,977	$ 77,871	$ 1,955	$ 234,163
—	—	20	20
—	—	—	16,927
—	208	190	444
63,977	78,079	2,165	251,554
17,971	10,300	1,337	45,661
1,510	79	76	12,034
8,167	50,377	512	102,468
7	—	91	1,727
7,273	2,768	44	27,991
—	—	—	1,451
87	44	17	12,190
31,734	7,999	66	40,009
66,749	71,567	2,143	243,531
(2,772)	6,512	22	8,023
—	—	—	3,257
—	—	—	159
(3)	(474)	7	(1,692)
2	—	—	(608)
(1)	(474)	7	1,116
(2,773)	6,038	29	9,139
510	13	—	629
(5,738)	(95)	(1)	(5,896)
(8,001)	5,956	28	3,872
55,767	22,693	1,447	194,429
$ 47,766	$ 28,649	$ 1,475	$ 198,301

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Cash Flows From Operating Activities:					
Receipts from customers	$ 8,631	$ 7,429	$ 4,996	$ 1,033	$ —
Receipts from other funds	32,300	10,379	30,692	2,657	10,146
Payments to suppliers	(40,095)	(10,086)	(11,888)	(276)	(19)
Payments to employees	—	(1,605)	(1,987)	(2,699)	(9,808)
Payments for benefits and claims	—	(497)	—	—	—
Payments to other funds	—	(500)	(3,963)	(588)	(33)
Other receipts (payments)	—	—	39	(94)	(32)
Net cash flows provided (used) by operating activities	836	5,120	17,889	33	254
Cash Provided From (Used For) Noncapital Financing Activities:					
Transfers from other funds	106	—	—	—	—
Transfers to other funds	(31)	(1)	—	(30)	—
Total cash provided from (used for) noncapital financing activities	75	(1)	—	(30)	—
Cash Provided From (Used For) Capital Financing Activities:					
Acquisition and construction of capital assets	—	—	(19,471)	(5)	—
Proceeds from the sale of capital assets	—	—	3,038	—	1
Insurance recoveries	—	—	159	—	—
Total cash provided from (used for) capital financing activities	—	—	(16,274)	(5)	1
Cash Provided From (Used For) Investment Activities:					
Investment earnings	—	644	—	—	—
Total cash provided from (used for) investment activities	—	644	—	—	—
Net increase (decrease) in cash and cash equivalents	911	5,763	1,615	(2)	255
Cash and cash equivalents at July 1	445	14,303	7,734	2	1,301
Cash and cash equivalents at June 30	$ 1,356	$ 20,066	$ 9,349	$ —	$ 1,556
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ 151	$ 3,766	$ 192	$ 101	$ 51
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	—	17,824	81	1
Nonoperating miscellaneous income (expense)	—	—	—	—	—
(Increases) decreases in assets:					
Receivables	(454)	15	(1,272)	(145)	190
Due from other funds	1,139	—	743	6	25
Due from fiduciary funds	—	—	—	—	—
Due from component units	—	—	(134)	—	—
Inventories	—	—	(9)	67	—
Prepaid items	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	—	454	559	(1)	(13)
Due to other funds	—	—	(7)	(42)	—
Compensated absences	—	20	(7)	(34)	—
Unearned revenue	—	865	—	—	—
Total cash provided from (used for) operations	$ 836	$ 5,120	$ 17,889	$ 33	$ 254
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ 1,289	$ —	$ —	$ —
Assets acquired through the assumption of a liability	—	25,977	—	—	—
Change in fair value of investments	—	709	—	—	—

Exhibit E-3

Computing Services	State Telecommunications Services	Surplus Property	*Totals*
$ 1,294	$ 23,777	$ 507	$ 47,667
63,411	53,735	1,445	204,765
(26,188)	(61,479)	(225)	(150,256)
(18,047)	(10,220)	(1,321)	(45,687)
—	—	—	(497)
(3,075)	(550)	(621)	(9,330)
(4,613)	25	144	(4,531)
12,782	5,288	(71)	42,131
510	13	(1)	628
(5,738)	(95)	—	(5,895)
(5,228)	(82)	(1)	(5,267)
(13,711)	(1,759)	(32)	(34,978)
—	—	7	3,046
—	—	—	159
(13,711)	(1,759)	(25)	(31,773)
—	—	—	644
—	—	—	644
(6,157)	3,447	(97)	5,735
19,384	5,491	2,324	50,984
$ 13,227	$ 8,938	$ 2,227	$ 56,719
$ (2,772)	$ 6,512	$ 22	$ 8,023
7,273	2,768	44	27,991
2	—	—	2
419	(1,996)	1	(3,242)
338	1,562	82	3,895
(1)	(1)	—	(2)
(28)	76	—	(86)
15	—	—	73
809	(3,796)	—	(2,987)
6,509	89	(171)	7,426
278	(6)	(66)	157
(60)	80	17	16
—	—	—	865
$ 12,782	$ 5,288	$ (71)	$ 42,131
$ —	$ —	$ —	$ 1,289
—	—	—	25,977
—	—	—	709

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FIDUCIARY FUNDS

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PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds account for resources held in trust in which the principal and income benefit individuals, private organizations, or other governments.

The following activities are included in the private purpose trust funds:

Deposits of Insurance Carriers Fund
Administrative Office of the Courts Trust Fund
Departmental Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS

June 30, 2005 *Exhibit F-1*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	*Totals*
Assets				
Cash and cash equivalents	$ 408	$ 95,596	$ 345	$ 96,349
Investments:				
U.S. Government securities	—	2,087	—	2,087
State and municipal securities	—	110	—	110
Certificates of deposit	—	62,689	—	62,689
Securities lending collateral	321	—	270	591
Receivables:				
Interest receivable	1	—	1	2
Sureties	966,025	—	—	966,025
Total Assets	966,755	160,482	616	1,127,853
Liabilities				
Obligations under securities lending	321	—	270	591
Total Liabilities	321	—	270	591
Net Assets				
Held in trust for:				
Individuals, organizations and other governments	966,434	160,482	346	1,127,262
Total Net Assets	$ 966,434	$ 160,482	$ 346	$ 1,127,262

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

For the Fiscal Year Ended June 30, 2005 *Exhibit F-2*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	*Totals*
Additions:				
Contributions:				
Trustee deposits	$ 24,516	$ 113,922	$ —	$ 138,438
Total contributions	24,516	113,922	—	138,438
Investment Income:				
Investment earnings	17	2,299	15	2,331
Less investment expenses	(6)	—	(5)	(11)
Net investment income	11	2,299	10	2,320
Total additions	24,527	116,221	10	140,758
Deductions:				
Payments in accordance with trust arrangements	8,682	117,775	—	126,457
Total deductions	8,682	117,775	—	126,457
Change in net assets	15,845	(1,554)	10	14,301
Net assets — July 1	950,589	162,036	336	1,112,961
Net assets — June 30	$ 966,434	$ 160,482	$ 346	$ 1,127,262

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AGENCY FUNDS

Agency funds account for resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

The following activities are included in the agency funds:

Local Sales Tax Collections
Clerks of Court
Intra-Entity Investment Fund Deposits
Other Agency Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2005

(Dollars in Thousands)

	Balance, July 1, 2004	Additions	Deductions	Balance, June 30, 2005
Local Sales Tax Collections				
Assets				
Cash and cash equivalents	$ 398,043	$ 2,328,814	$ (2,335,112)	$ 391,745
Receivables:				
Taxes receivable	165,100	3,300	—	168,400
Due from other funds	7,043	3,404	—	10,447
Total Assets	$ 570,186	$ 2,335,518	$ (2,335,112)	$ 570,592
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payables	$ 570,186	$ 2,335,518	$ (2,335,112)	$ 570,592
Total Liabilities	$ 570,186	$ 2,335,518	$ (2,335,112)	$ 570,592
Clerks of Court				
Assets				
Cash and cash equivalents	$ 86,422	$ 1,358,732	$ (1,359,418)	$ 85,736
Receivables:				
Accounts receivable	838	4,341	(4,690)	489
Sureties	50,240	81,517	(49,251)	82,506
Total Assets	$ 137,500	$ 1,444,590	$ (1,413,359)	$ 168,731
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payables	$ 6,705	$ 118,181	$ (119,207)	$ 5,679
Funds held for others	130,795	532,748	(500,491)	163,052
Total Liabilities	$ 137,500	$ 650,929	$ (619,698)	$ 168,731
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents	$ 2,330,765	$ 46,806	$ —	$ 2,377,571
Investments:				
State Treasurer investment pool	45,191	1,083	—	46,274
Securities lending collateral	1,779,750	99,466	—	1,879,216
Receivables:				
Interest receivable	5,569	—	(5,569)	—
Total Assets	$ 4,161,275	$ 147,355	$ (5,569)	$ 4,303,061
Liabilities				
Obligations under securities lending	1,779,750	99,466	—	$ 1,879,216
Funds held for others	2,381,525	42,320	—	2,423,845
Total Liabilities	$ 4,161,275	$ 141,786	$ —	$ 4,303,061

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2005 *Exhibit F-3*

(Dollars in Thousands)

	Balance, July 1, 2004	Additions	Deductions	Balance, June 30, 2005
Other Agency Funds				
Assets				
Cash and cash equivalents	$ 28,364	$ 1,021,881	$ (1,028,594)	$ 21,651
Investments:				
Certificates of deposit	462	5	—	467
Securities lending collateral	15,119	—	(2,406)	12,713
Receivables:				
Accounts receivable	11	—	—	11
Intergovernmental receivables	954	—	(954)	—
Interest receivable	2	—	(1)	1
Due from other funds	47	—	—	47
Inventories	301	—	—	301
Total Assets	$ 45,260	$ 1,021,886	$ (1,031,955)	$ 35,191
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 54	$ 6,820	$ (6,388)	$ 486
Intergovernmental payables	7,116	143,420	(144,388)	6,148
Obligations under securities lending	15,119	—	(2,406)	12,713
Deposits payable	1,781	3,937	(4,128)	1,590
Funds held for others	21,190	90,923	(97,859)	14,254
Total Liabilities	$ 45,260	$ 245,100	$ (255,169)	$ 35,191
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 2,843,594	$ 4,756,233	$ (4,723,124)	$ 2,876,703
Investments:				
Certificates of deposit	462	5	—	467
State Treasurer investment pool	45,191	1,083	—	46,274
Securities lending collateral	1,794,869	99,466	(2,406)	1,891,929
Receivables:				
Taxes receivable	165,100	3,300	—	168,400
Accounts receivable	849	4,341	(4,690)	500
Intergovernmental receivables	954	—	(954)	—
Interest receivable	5,571	—	(5,570)	1
Due from other funds	7,090	3,404	—	10,494
Inventories	301	—	—	301
Sureties	50,240	81,517	(49,251)	82,506
Total Assets	$ 4,914,221	$ 4,949,349	$ (4,785,995)	$ 5,077,575
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 54	$ 6,820	$ (6,388)	$ 486
Intergovernmental payables	584,007	2,597,119	(2,598,707)	582,419
Obligations under securities lending	1,794,869	99,466	(2,406)	1,891,929
Deposits payable	1,781	3,937	(4,128)	1,590
Funds held for others	2,533,510	665,991	(598,350)	2,601,151
Total Liabilities	$ 4,914,221	$ 3,373,333	$ (3,209,979)	$ 5,077,575

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COMPONENT UNITS

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NONMAJOR COMPONENT UNITS – DISCRETELY PRESENTED

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

Nonmajor component units are comprised of the following entities:

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

COMBINING STATEMENT OF NET ASSETS
NONMAJOR COMPONENT UNITS

June 30, 2005
(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Partnership for Children, Inc.	Regional Economic Development Commissions	North Carolina Railroad Company
Assets						
Cash and cash equivalents	$ 2,949	$ 5,679	$ 7,116	$ 36	$ 2,248	$ 24,418
Investments	6,248	—	7,820	3,855	770	—
Receivables, net	6,812	226	195	1,703	104	668
Due from component units	—	—	—	—	473	—
Inventories	852	3	—	—	—	—
Prepaid items	465	—	—	48	—	47
Notes receivable, net	—	10,061	—	—	—	—
Deferred charges	789	—	—	—	—	—
Capital assets-nondepreciable	29,372	172	26,745	—	67	20,615
Capital assets-depreciable, net	116,198	—	49,729	99	834	11,666
Total Assets	163,685	16,141	91,605	5,741	4,496	57,414
Liabilities						
Accounts payable and accrued liabilities	4,204	1	759	126	61	1,828
Interest payable	16	—	—	—	—	—
Due to primary government	—	1	7,193	1,251	—	—
Unearned revenue	511	—	23	—	493	—
Advance from primary government	—	—	21,742	—	—	—
Deposits payable	—	—	—	—	—	3
Funds held for others	—	—	—	1,131	—	—
Long-term liabilities:						
Due within one year	1,816	4	56	22	49	—
Due in more than one year	13,381	39	1,310	186	—	—
Total Liabilities	19,928	45	31,083	2,716	603	1,831
Net Assets						
Invested in capital assets, net of related debt	131,448	172	61,260	99	901	32,281
Restricted for:						
Expendable:						
Health and human services	—	—	—	762	—	—
Other purposes	—	—	24	—	—	—
Unrestricted	12,309	15,924	(762)	2,164	2,992	23,302
Total Net Assets	$ 143,757	$ 16,096	$ 60,522	$ 3,025	$ 3,893	$ 55,583

Exhibit G-1

N.C. Phase II Tobacco Certification Entity, Inc.	N.C. Turnpike Authority	Total
$ 249	$ —	$ 42,695
—	—	18,693
—	—	9,708
—	—	473
—	—	855
2	—	562
—	—	10,061
—	—	789
—	—	76,971
17	—	178,543
268	—	339,350
—	6	6,985
—	—	16
—	—	8,445
—	—	1,027
—	58	21,800
—	—	3
59	—	1,190
—	—	1,947
—	—	14,916
59	64	56,329
17	—	226,178
—	—	762
—	—	24
192	(64)	56,057
$ 209	$ (64)	$ 283,021

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2005
(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Partnership for Children, Inc.	Regional Economic Development Commissions	North Carolina Railroad Company
Total expenses	$ 43,755	$ 1,192	$ 6,496	$ 120,083	$ 6,624	$ 13,022
Program revenues:						
Charges for services	35,016	764	878	—	271	13,009
Operating grants and contributions	6,802	604	1,140	381	2,475	427
Capital grants and contributions	—	—	300	—	—	—
Net program (expense) revenue	(1,937)	176	(4,178)	(119,702)	(3,878)	414
Non-tax general revenues:						
State operating aid	—	—	1,600	117,874	4,066	—
State capital aid	4,968	—	—	—	—	10,017
Total non-tax general revenues	4,968	—	1,600	117,874	4,066	10,017
Change in net assets	3,031	176	(2,578)	(1,828)	188	10,431
Net assets — July 1, as restated	140,726	15,920	63,100	4,853	3,705	45,152
Net assets — June 30	$ 143,757	$ 16,096	$ 60,522	$ 3,025	$ 3,893	$ 55,583

Exhibit G-2

N.C. Phase II Tobacco Certification Entity, Inc.	N.C. Turnpike Authority	Total
$ 3,498	$ 58	$ 194,728
—	—	49,938
3,044	—	14,873
—	—	300
(454)	(58)	(129,617)
—	—	123,540
—	—	14,985
—	—	138,525
(454)	(58)	8,908
663	(6)	274,113
$ 209	$ (64)	$ 283,021

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STATISTICAL SECTION

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

(Dollars in Thousands)

		2005	2004	2003	2002	2001
Revenues — By Source						
Taxes		$ 17,618,730	$ 15,961,629	$ 15,394,024	$ 14,894,796	$ 15,147,177
Federal funds		11,287,454	10,089,075	8,672,065	8,459,344	7,924,893
Local funds		767,067	657,954	586,638	702,076	760,607
Investment earnings	[1] [3]	292,406	160,846	320,023	335,082	487,824
Interest earnings on loans		5,664	5,801	7,165	47,421	5,789
Sales and services		235,894	210,161	184,739	194,548	97,686
Rental and lease of property		38,585	27,848	22,175	24,359	43,046
Fees, licenses and fines		1,218,431	1,035,303	915,380	864,912	896,435
Tobacco settlement		148,641	146,452	173,256	175,836	140,272
Contributions, gifts, and grants		108,450	150,731	90,486	93,802	122,871
Funds escheated		49,684	55,330	41,369	90,181	N/A
Federal funds for fiscal relief		—	136,859	136,859	N/A	N/A
Miscellaneous		146,529	196,937	147,777	145,887	165,349
Total revenues	[4]	$ 31,917,535	$ 28,834,926	$ 26,691,956	$ 26,028,244	$ 25,791,949
Expenditures — By Function						
Current:						
General government	[1]	$ 754,175	$ 711,327	$ 691,267	$ 809,398	$ 1,035,440
Education	[1] [5]	N/A	N/A	N/A	N/A	6,964,812
Primary and secondary education	[5]	7,713,265	7,223,143	6,863,338	6,802,662	N/A
Higher education	[5]	3,576,766	3,140,698	2,813,629	2,519,624	N/A
Health and human services	[1] [2]	13,376,364	11,722,721	10,583,184	10,398,386	9,617,423
Economic development	[1]	622,000	532,674	484,298	498,644	453,931
Environment and natural resources	[1] [2]	579,853	581,726	534,405	574,871	459,170
Public safety, corrections, and regulation	[1]	2,123,837	2,073,338	1,998,576	2,070,166	1,948,423
Transportation	[1]	3,511,161	3,389,042	2,967,551	2,992,187	2,820,290
Agriculture	[1]	82,508	81,488	81,857	122,337	88,623
Retiree tax judgements		—	—	—	—	58,679
Capital outlay		313,932	385,506	104,379	126,011	155,228
Debt service		553,208	425,972	321,529	328,712	281,463
Total expenditures	[4]	$ 33,207,069	$ 30,267,635	$ 27,444,013	$ 27,242,998	$ 23,883,482

All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent funds. Years prior to 2002 do not include permanent funds.

Major Revenues by Source 1996 - 2005

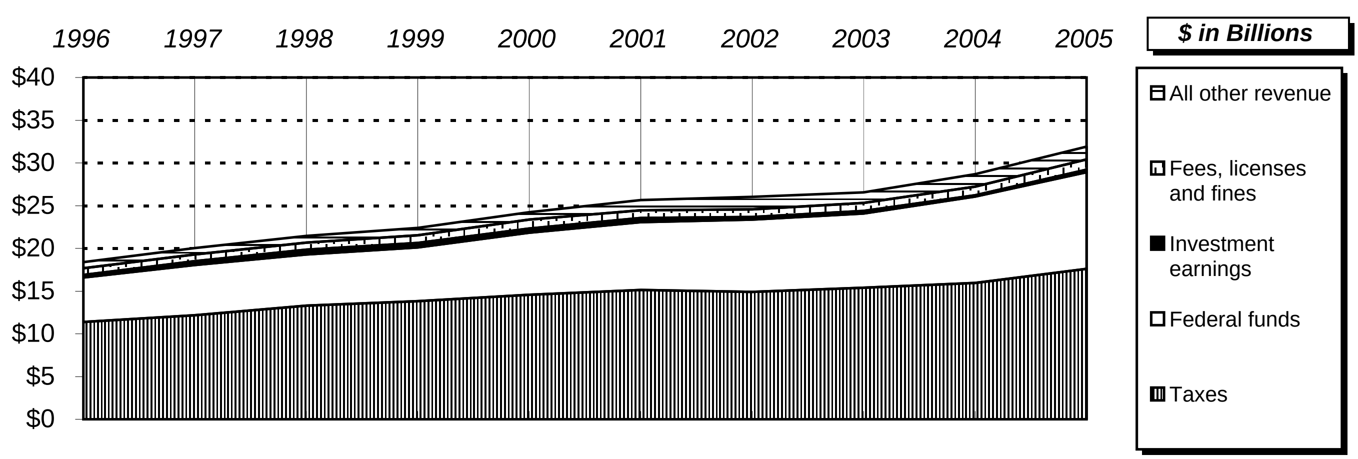


Table 1

2000	1999	1998	1997	1996
$ 14,569,104	$ 13,817,577	$ 13,287,609	$ 12,177,605	$ 11,390,198
7,253,282	6,297,196	5,983,003	5,857,680	5,192,921
511,350	469,539	462,879	427,306	469,023
500,854	529,028	575,901	454,678	290,536
5,356	6,665	5,676	4,280	1,361
94,751	92,237	84,087	76,130	82,511
25,059	26,913	26,321	24,738	23,641
1,046,042	895,892	826,491	814,690	793,622
—	N/A	N/A	N/A	N/A
79,554	71,787	61,189	31,805	21,512
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
147,816	172,103	148,794	182,247	141,647
$ 24,233,168	$ 22,378,937	$ 21,461,950	$ 20,051,159	$ 18,406,972
$ 1,229,513	$ 1,039,855	$ 1,115,763	$ 921,406	$ 769,518
6,674,757	6,253,838	5,416,486	4,775,741	4,499,257
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
8,411,025	7,665,461	7,300,262	6,822,624	6,244,976
428,819	370,124	321,613	294,787	261,340
371,238	354,025	332,803	668,402	576,272
1,999,894	1,670,703	1,578,985	1,613,757	1,331,964
2,598,605	2,508,886	2,384,455	2,205,494	1,908,076
143,936	72,562	68,573	65,421	63,174
440,000	399,000	400,000	—	—
159,241	182,793	203,605	147,194	173,118
264,877	227,630	170,039	131,249	150,471
$ 22,721,905	$ 20,744,877	$ 19,292,584	$ 17,646,075	$ 15,978,166

[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.

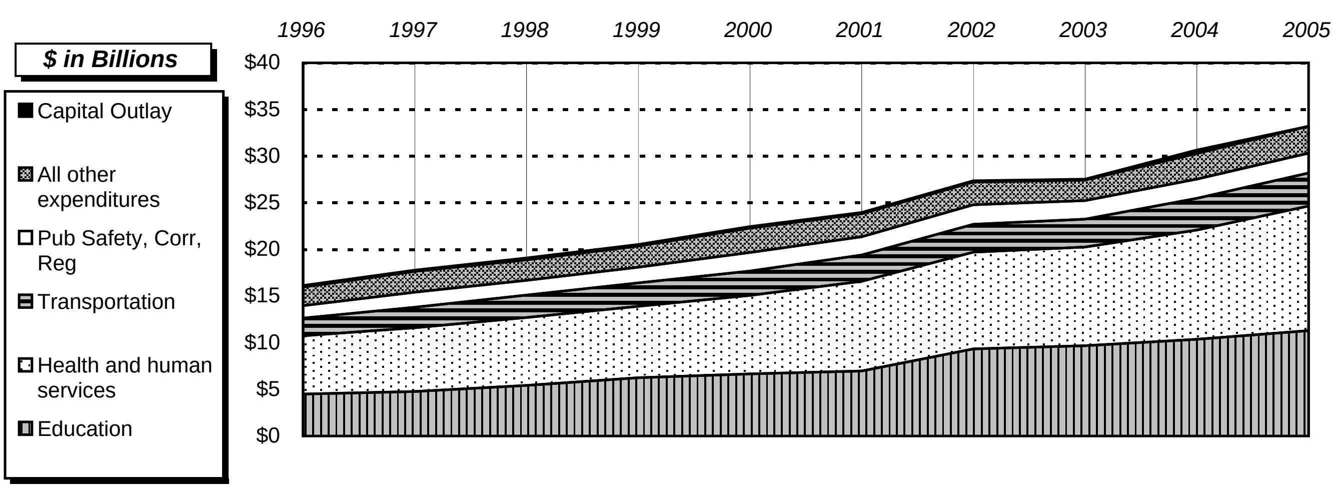
[2] In fiscal years prior to 1998, health expenditures were included in the environment, health and natural resources expenditure function. In the 1998 fiscal year, health expenditures were shifted and are now reflected in the health and human services function.

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

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

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

Major Expenditures by Function 1996 - 2005



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

(Dollars in Thousands)

		2005	2004	2003	2002	2001
TAX REVENUES						
Individual income tax		$ 8,206,026	$ 7,404,956	$ 7,126,655	$ 7,219,794	$ 7,605,542
Corporate income tax		1,065,374	699,441	922,936	548,046	712,161
Sales and use tax		4,587,542	4,268,292	4,020,923	3,766,285	3,429,532
Franchise tax		613,093	560,502	583,781	592,259	746,687
Beverage tax		220,782	213,271	198,848	200,593	198,646
Insurance tax		431,664	423,405	408,873	340,785	305,791
Piped natural gas		60,739	64,327	63,219	64,852	64,854
Intangible tax		—	—	—	—	4
Inheritance tax		134,419	129,579	112,605	104,799	123,094
Soft drink tax		—	—	—	2	48
Tobacco products tax		43,361	44,126	41,899	41,500	42,137
License tax		44,219	42,418	44,565	44,432	43,874
Real estate conveyance tax		—	—	—	—	—
Gift tax		18,924	16,615	19,328	13,392	20,254
Other taxes		14,114	13,571	12,508	17,479	11,152
Total tax revenues		15,440,257	13,880,503	13,556,140	12,954,218	13,303,776
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		9,755,067	8,769,925	7,564,627	7,266,016	6,777,503
Federal Funds for Fiscal Relief:						
Federal funds for fiscal relief		—	136,859	136,859	—	—
Local Funds:						
Departmental revenues		731,368	636,900	562,498	682,310	737,063
Investment Earnings:						
Income from General Fund investments	[2]	75,669	76,415	103,786	129,924	163,479
Income from securities lending	[1]	48,463	21,305	30,604	44,659	111,490
Departmental revenues		8,539	2,613	4,745	4,217	10,022
Other investment earnings		14	3	5	9,531	320
		132,685	100,336	139,140	188,331	285,311
Sales and Services:						
Departmental revenues		85,592	76,010	61,316	61,031	68,736
Other non-tax revenues		168	182	198	228	405
		85,760	76,192	61,514	61,259	69,141
Rental and Lease of Property:						
Proceeds from rental and lease of property		4,304	102	92	546	573
Departmental revenues		7,072	6,620	6,140	6,556	16,989
		11,376	6,722	6,232	7,102	17,562
Fees, Licenses and Fines:						
Court fines and fees		142,798	138,878	126,381	109,575	111,012
Secretary of State service fees		46,975	40,638	36,807	31,357	29,584
Banking and investment fees		5,165	4,758	4,485	4,336	10,914
Self insurer fees (Industrial Commission)		14,128	13,777	13,512	6,795	7,098
Probation supervision fees		16,476	16,748	14,339	10,833	10,453
Department of Insurance fees		24,526	25,147	21,198	22,854	20,210
DWI service and restoration fees		8,398	8,709	7,332	5,822	5,706
Departmental revenues		200,452	62,578	41,747	41,540	40,422
Other non-tax revenues		3,818	4,388	4,161	4,124	4,065
		462,736	315,621	269,962	237,236	239,464
Tobacco settlement						
Tobacco settlement		148,641	146,452	173,256	175,836	140,272
Contributions, Gifts and Grants:						
Departmental revenues		34,375	50,140	29,702	33,658	53,425
Other non-tax revenues		105	234	1	30	—
		34,480	50,374	29,703	33,688	53,425
Miscellaneous:						
Local sales and use tax administration		13,932	13,989	12,495	11,774	11,568
Sales tax refunds		10,253	14,456	7,908	11,120	11,494
Departmental revenues		84,927	123,852	95,753	89,489	123,230
Other non-tax revenue		1,253	2,083	315	6,307	914
		110,365	154,380	116,471	118,690	147,206
Total non-tax revenues		11,472,478	10,393,761	9,060,262	8,770,468	8,466,947
Total Revenues	[3]	$ 26,912,735	$ 24,274,264	$ 22,616,402	$ 21,724,686	$ 21,770,723

Table 2

2000	1999	1998	1997	1996
$ 7,097,514	$ 6,586,153	$ 6,124,709	$ 5,454,571	$ 4,975,387
989,280	920,583	999,759	869,717	878,028
3,361,169	3,342,157	3,272,774	3,134,877	2,947,537
557,544	567,497	567,869	534,622	495,008
193,003	182,970	155,352	151,064	138,653
273,367	291,202	283,828	259,286	242,188
52,025	—	—	—	—
20	31	217	—	11,509
162,997	163,608	144,203	132,195	113,416
144	11,463	22,338	30,980	39,619
43,104	44,694	47,304	46,797	46,394
42,595	27,202	38,209	41,280	44,962
—	1,215	894	1,064	19,510
25,084	19,243	20,722	12,566	11,043
10,292	10,973	1,501	1,516	1,388
12,808,158	12,168,991	11,679,679	10,670,535	9,964,642
6,156,189	5,361,839	5,174,406	5,169,286	4,613,915
—	—	—	—	—
482,387	436,609	436,347	403,145	445,443
204,083	248,657	252,162	224,260	202,277
112,011	112,531	136,955	105,722	—
7,300	4,416	58,415	10,257	11,070
251	81	137	241	249
323,645	365,685	447,669	340,480	213,596
69,793	70,036	67,214	58,744	63,345
276	350	319	—	—
70,069	70,386	67,533	58,744	63,345
1,035	786	1,811	1,342	1,265
7,218	5,773	4,255	4,651	4,404
8,253	6,559	6,066	5,993	5,669
97,808	99,986	93,252	99,819	90,456
24,255	20,099	19,257	17,344	14,838
4,029	4,332	3,031	3,337	3,432
6,360	4,128	3,556	3,460	3,038
10,605	11,166	11,778	10,859	10,002
18,433	18,205	1,096	6,001	961
5,703	5,936	6,050	5,949	5,426
38,300	110,664	103,296	104,002	101,364
4,181	2,652	3,358	4,075	5,292
209,674	277,168	244,674	254,846	234,809
—	—	—	—	—
15,452	17,511	13,205	14,145	8,574
2	101	1	—	—
15,454	17,612	13,206	14,145	8,574
10,973	10,293	10,060	9,178	8,661
15,514	10,406	10,936	13,301	11,585
108,555	130,518	115,529	151,906	112,430
866	844	744	455	471
135,908	152,061	137,269	174,840	133,147
7,401,579	6,687,919	6,527,170	6,421,479	5,718,498
$ 20,209,737	$ 18,856,910	$ 18,206,849	$ 17,092,014	$ 15,683,140

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

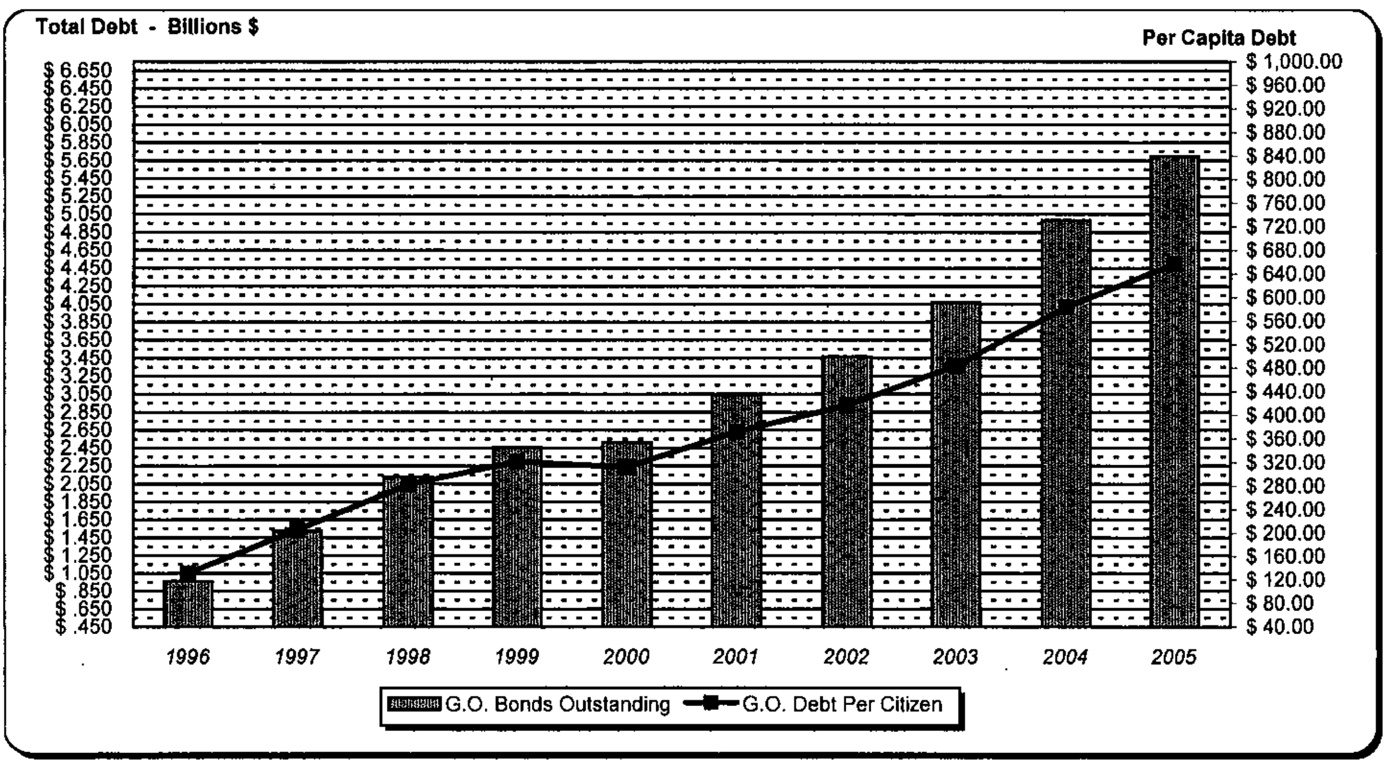
[3] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for Nonexchange Transactions*. This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

GENERAL OBLIGATION BONDS DEBT RATIOS

For the Fiscal Years 1996-2005 *Table 3*

Fiscal Year Ended June 30	General Obligation Debt Per Capita			Ratio of Annual Debt Service To General Expenditures		
	N.C. Population	General Obligation Bonds Outstanding	G.O. Debt per Citizen	Debt Service Expenditures	Total General Expenditures	Ratio
2005	8,677,026 [1]	$ 5,698,535,000	$ 656.74	$ 553,208,000	$ 33,207,069,000	1.67%
2004	8,541,221	$ 4,982,860,000	$ 583.39	$ 425,972,000	$ 30,267,635,000	1.41%
2003	8,407,248	$ 4,066,990,000	$ 483.75	$ 321,529,000	$ 27,444,013,000	1.17%
2002	8,320,146	$ 3,467,326,000	$ 416.74	$ 328,712,000	$ 27,242,998,000	1.21%
2001	8,186,268	$ 3,042,570,000	$ 371.67	$ 281,463,000	$ 23,883,482,000	1.18%
2000	8,049,313	$ 2,514,730,000	$ 312.42	$ 264,877,000	$ 22,721,905,000	1.17%
1999	7,647,934	$ 2,457,650,000	$ 321.35	$ 227,630,000	$ 20,744,877,000	1.10%
1998	7,545,735	$ 2,130,615,000	$ 282.36	$ 170,039,000	$ 19,292,584,000	0.88%
1997	7,428,579	$ 1,522,200,000	$ 204.91	$ 131,249,000	$ 17,646,075,000	0.74%
1996	7,307,565	$ 959,910,000	$ 131.36	$ 150,741,000	$ 15,978,166,000	0.94%

Total General Obligation Debt and Long-Term Debt Per Capita



[1] Since the 2005 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2005 amount.

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

REVENUE BOND COVERAGE

For the Fiscal Years 1996-2005 *Table 4*

(Dollars in Thousands)

Fiscal Year Ended June 30	Gross Revenues [1]	Direct Operating Expenses [1]	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage [2]
PRIMARY GOVERNMENT:							
			Enterprise Funds				
2005	$ 3,703	$ 2,470	$ 1,233	$ 255	$ 414	$ 669	1.84
2004	3,800	3,014	786	245	419	664	1.18
2003	4,192	2,341	1,851	235	434	669	2.77
2002	4,005	2,276	1,729	100	431	531	3.26
2001	3,813	2,427	1,386	—	47	47	29.49
2000	—	—	—	—	—	—	—
1999	—	—	—	—	—	—	—
1998	—	—	—	—	—	—	—
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
COMPONENT UNITS:							
			N.C. Housing Finance Agency and State Education Assistance Authority				
2005	$ 474,112	$ 24,391	$ 449,721	$ 28,967	$ 88,454	$ 117,421	3.83
2004	422,429	22,281	400,148	25,245	87,358	112,603	3.55
2003	361,644	19,520	342,124	22,465	97,759	120,224	2.85
2002	295,751	17,301	278,450	17,902	114,070	131,972	2.11
2001	253,162	18,537	234,625	16,962	122,348	139,310	1.68
2000	193,365	15,755	177,610	17,025	96,605	113,630	1.56
1999	172,096	14,298	157,798	13,435	87,468	100,903	1.56
1998	186,851	12,414	174,437	11,910	73,743	85,653	2.04
1997	105,826	10,624	95,202	10,696	69,182	79,878	1.19
1996	79,683	3,293	76,390	20,520	52,347	72,867	1.05
			University of North Carolina System				
2005	$ 2,010,137	$ 1,674,206	$ 335,931	$ 56,872	$ 59,943	$ 116,815	2.88
2004	1,888,382	1,596,790	291,592	55,192	53,694	108,886	2.68
2003	1,766,355	1,485,390	280,965	49,130	53,622	102,752	2.73
2002	1,712,116	1,453,645	258,471	48,330	55,042	103,372	2.50
2001	1,563,249	1,305,655	257,594	44,733	48,875	93,608	2.75
2000	1,127,769	943,685	184,084	36,975	45,821	82,796	2.22
1999	1,201,023	1,000,455	200,568	30,268	47,663	77,931	2.57
1998	1,154,699	881,246	273,453	27,348	44,050	71,398	3.83
1997	1,089,199	880,855	208,344	25,321	44,153	69,474	3.00
1996	999,627	772,898	226,729	22,883	36,777	59,660	3.80

[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.

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2005

(Dollars in Thousands)

		Payable from General Fund Revenues						
	Total General Obligation Bonds	*Total General Fund*	Capital Improvement Series 1989 5-1-89 6.5 - 6.9% [*]	Clean Water Series 1995A 6-1-95 5.0 - 5.25%	Capital Improvement Series 1997 1-1-97 4.8-5.1%	Public School Building Series 1997A 3-1-97 5.1-5.2%	Public School Building Series 1998A 4-1-98 4.75-5.0%	Public School Building Series 1999 4-1-99 4.5-5.0%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law	$ 20,499	$ 20,499	$ 20,499	$ —	$ —	$ —	$ —	$ —
Ch. 935, 1989 session law	—	—	—	—	—	—	—	—
Ch. 542, 1993 session law	255,000	255,000	—	60,000	195,000	—	—	—
Ch. 631, 1995 session law	1,800,000	1,800,000	—	—	—	450,000	450,000	450,000
General Statute Ch. 142	908,965	908,965	—	—	—	—	—	—
Ch. 590, 1995 session law	650,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law	647,955	647,955	—	—	—	—	—	—
Ch. 3, 2000 session law	1,822,800	1,822,800	—	—	—	—	—	—
2004 session law	1,981,165	1,582,795	—	—	—	—	—	—
Total bonds authorized and issued	8,086,384	7,038,014	20,499	60,000	195,000	450,000	450,000	450,000
Accretion	15,425	15,425	15,425	—	—	—	—	—
Bonds retired	915,125	778,110	29,450	24,000	69,000	99,000	96,000	111,000
Partial defeasances	1,489,325	1,389,400	—	36,000	114,000	297,000	306,000	228,000
Bonds outstanding— 6/30/2005	$ 5,697,359	$ 4,885,929	$ 6,474	$ —	$ 12,000	$ 54,000	$ 48,000	$ 111,000
Bond Maturity As Follows:								
2005-06	329,594	274,919	1,784	—	12,000	27,000	16,000	18,500
2006-07	325,673	270,998	1,668	—	—	27,000	16,000	18,500
2007-08	324,162	270,107	1,562	—	—	—	16,000	18,500
2008-09	320,665	266,575	1,460	—	—	—	—	18,500
2009-10	321,000	266,935	—	—	—	—	—	18,500
2010-11	321,160	267,130	—	—	—	—	—	18,500
2011-12	322,180	268,180	—	—	—	—	—	—
2012-13	324,105	270,265	—	—	—	—	—	—
2013-14	324,270	269,670	—	—	—	—	—	—
2014-15	323,515	268,915	—	—	—	—	—	—
2015-16	323,540	268,940	—	—	—	—	—	—
2016-17	321,195	266,595	—	—	—	—	—	—
2017-18	324,980	270,380	—	—	—	—	—	—
2018-19	326,065	271,465	—	—	—	—	—	—
2019-20	290,900	240,500	—	—	—	—	—	—
2020-21	210,500	210,500	—	—	—	—	—	—
2021-22	191,500	191,500	—	—	—	—	—	—
2022-23	184,455	184,455	—	—	—	—	—	—
2023-24	159,000	159,000	—	—	—	—	—	—
2024-25	79,400	79,400	—	—	—	—	—	—
2025-26	16,500	16,500	—	—	—	—	—	—
2026-27	16,500	16,500	—	—	—	—	—	—
2027-28	16,500	16,500	—	—	—	—	—	—
Total Bonds Outstanding	$ 5,697,359	$ 4,885,929	$ 6,474	$ —	$ 12,000	$ 54,000	$ 48,000	$ 111,000

[*] Capital Appreciation Bonds

Table 5

Payable from General Fund Revenues

Clean Water Refunding Series 1999	Public Improvement Series 1999A	Public Improvement Series 1999B	Public Improvement Series 1999C	Public Improvement Series 2000A	Public Improvement Series 2001A	Public Improvement Series 2002A	Public Improvement Series 2002C	Public Improvement Series 2002D	Public Improvement Series 2002E
4-1-99	9-1-99	9-1-99	10-1-99	9-1-00	3-1-01	3-1-02	4-1-02	5-1-02	5-1-02
2.9-5.0%	5.0-5.4%	6.7-6.75%	4.5-4.7%	5.0-5.1%	4.5-5.0%	4.0-5.5%	3.0-4.0%	Variable to 18%	Variable to 18%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	295,000	100,000	—	—	55,000	—
25,905	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	177,400	20,000	2,600	5,000	30,000	204,400	10,600	—	—
—	—	—	—	—	250,000	—	—	33,750	88,750
—	—	—	—	—	—	—	—	—	—
25,905	177,400	20,000	2,600	300,000	380,000	204,400	10,600	88,750	88,750
—	—	—	—	—	—	—	—	—	—
3,520	30,000	14,250	1,875	48,000	64,000	33,550	6,450	—	—
—	116,400	—	—	180,000	112,000	—	—	—	—
$ 22,385	$ 31,000	$ 5,750	$ 725	$ 72,000	$ 204,000	$ 170,850	$ 4,150	$ 88,750	$ 88,750
2,160	6,000	2,850	375	12,000	16,000	22,850	2,150	—	—
2,135	6,000	2,900	350	12,000	16,000	23,000	2,000	—	—
2,110	9,500	—	—	12,000	16,000	25,000	—	—	—
2,080	9,500	—	—	12,000	16,000	25,000	—	—	—
2,050	—	—	—	12,000	16,000	25,000	—	—	—
2,025	—	—	—	12,000	16,000	25,000	—	—	—
2,000	—	—	—	—	16,000	25,000	—	—	—
1,980	—	—	—	—	16,000	—	—	6,250	6,250
1,965	—	—	—	—	16,000	—	—	6,250	6,250
1,950	—	—	—	—	16,000	—	—	6,250	6,250
1,930	—	—	—	—	16,000	—	—	6,250	6,250
—	—	—	—	—	28,000	—	—	6,250	6,250
—	—	—	—	—	—	—	—	10,750	10,750
—	—	—	—	—	—	—	—	23,250	23,250
—	—	—	—	—	—	—	—	18,750	18,750
—	—	—	—	—	—	—	—	4,750	4,750
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
$ 22,385	$ 31,000	$ 5,750	$ 725	$ 72,000	$ 204,000	$ 170,850	$ 4,150	$ 88,750	$ 88,750

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

June 30, 2005

(Dollars in Thousands)

	Public Improvement Series 2002F 5-1-02 Variable to 18%	Public Improvement Series 2002G 5-1-02 Variable to 18%	Natural Gas Series 2002A 12-1-02 2.6 - 3.9%	Clean Water Series 2002A 12-1-02 2.25 - 5.0%	Refunding Series 2002A 12-1-02 2% - 5.25%	Refunding Series 2002B 12-12-02 Variable to 20%	Refunding Series 2002C 12-12-02 Variable to 20%	Refunding Series 2002D 12-12-02 Variable to 20%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ch. 935, 1989 session law	—	—	—	—	—	—	—	—
Ch. 542, 1993 session law	—	—	—	—	—	—	—	—
Ch. 631, 1995 session law	—	—	—	—	—	—	—	—
General Statute Ch. 142	—	—	—	—	56,480	100,000	100,000	100,000
Ch. 590, 1995 session law	—	—	—	—	—	—	—	—
Ch. 132, 1998 session law	—	—	50,000	18,800	—	—	—	—
Ch. 3, 2000 session law	88,750	88,750	—	—	—	—	—	—
2004 session law	—	—	—	—	—	—	—	—
Total bonds authorized and issued	88,750	88,750	50,000	18,800	56,480	100,000	100,000	100,000
Accretion	—	—	—	—	—	—	—	—
Bonds retired	—	—	20,000	420	11,040	—	—	—
Partial defeasances	—	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2005	$ 88,750	$ 88,750	$ 30,000	$ 18,380	$ 45,440	$ 100,000	$ 100,000	$ 100,000
Bond Maturity As Follows:								
2005-06	—	—	10,000	200	5,915	—	—	—
2006-07	—	—	10,000	210	6,075	—	—	—
2007-08	—	—	10,000	225	6,250	—	—	—
2008-09	—	—	—	235	6,795	—	—	—
2009-10	—	—	—	255	10,030	—	—	—
2010-11	—	—	—	270	10,375	—	—	—
2011-12	—	—	—	750	—	4,520	4,520	4,520
2012-13	6,250	6,250	—	1,815	—	10,920	10,920	10,920
2013-14	6,250	6,250	—	1,795	—	10,815	10,815	10,815
2014-15	6,250	6,250	—	1,775	—	10,700	10,700	10,700
2015-16	6,250	6,250	—	2,245	—	13,385	13,385	13,385
2016-17	6,250	6,250	—	510	—	3,520	3,520	3,520
2017-18	10,750	10,750	—	4,915	—	27,975	27,975	27,975
2018-19	23,250	23,250	—	3,180	—	18,165	18,165	18,165
2019-20	18,750	18,750	—	—	—	—	—	—
2020-21	4,750	4,750	—	—	—	—	—	—
2021-22	—	—	—	—	—	—	—	—
2022-23	—	—	—	—	—	—	—	—
2023-24	—	—	—	—	—	—	—	—
2024-25	—	—	—	—	—	—	—	—
2025-26	—	—	—	—	—	—	—	—
2026-27	—	—	—	—	—	—	—	—
2027-28	—	—	—	—	—	—	—	—
Total Bonds Outstanding	$ 88,750	$ 88,750	$ 30,000	$ 18,380	$ 45,440	$ 100,000	$ 100,000	$ 100,000

Table 5

Payable from General Fund Revenues

Refunding Series 2002E 12-12-02 Variable to 20%	Refunding Series 2002F 12-12-02 Variable to 20%	Clean Water Series 2003A 1-1-03 2.25% - 3.125%	Public Improvement Series 2003A 3-1-03 2.0% - 5.25%	Public Improvement Series 2003B 4-1-03 2.0-5.0%	Natural Gas Series 2003 4-1-03 1.5% - 3.5%	Clean Water Series 2003B 5-1-03 2.5% - 3.125%	Refunding Series 2003D 8-1-03 2.0%-4.75%	Refunding Series 2003E 8-1-03 4%-5%	Public Improvement Series 2004A 3-1-04 2%-5.25%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
100,000	99,870	—	—	—	—	—	91,000	235,710	—
—	—	—	—	—	—	—	—	—	—
—	—	2,900	38,355	—	33,000	3,645	—	—	—
—	—	—	281,645	283,255	—	—	—	—	707,900
—	—	—	—	—	—	—	—	—	—
100,000	99,870	2,900	320,000	283,255	33,000	3,645	91,000	235,710	707,900
—	—	—	—	—	—	—	—	—	—
—	—	1,200	10,000	8,920	13,200	1,500	34,620	20,925	14,000
—	—	—	—	—	—	—	—	—	—
$ 100,000	$ 99,870	$ 1,700	$ 310,000	$ 274,335	$ 19,800	$ 2,145	$ 56,380	$ 214,785	$ 693,900
—	—	600	5,000	4,460	6,600	750	18,120	27,985	14,000
—	—	600	5,000	4,460	6,600	750	17,915	27,790	14,000
—	—	500	5,000	4,460	6,600	645	13,475	27,585	14,000
—	—	—	13,000	13,000	—	—	6,870	27,650	14,000
—	—	—	13,000	13,000	—	—	—	27,715	25,000
—	—	—	13,000	13,000	—	—	—	27,785	25,000
4,520	4,500	—	13,000	13,000	—	—	—	27,855	25,000
10,920	10,915	—	13,000	13,000	—	—	—	20,420	25,000
10,815	10,795	—	13,000	13,000	—	—	—	—	25,000
10,700	10,690	—	13,000	13,000	—	—	—	—	25,000
13,385	13,370	—	13,000	13,000	—	—	—	—	25,000
3,520	3,525	—	13,000	13,000	—	—	—	—	25,000
27,975	27,950	—	13,000	13,000	—	—	—	—	25,000
18,165	18,125	—	16,500	18,000	—	—	—	—	25,000
—	—	—	16,500	30,000	—	—	—	—	65,000
—	—	—	16,500	30,000	—	—	—	—	65,000
—	—	—	16,500	30,000	—	—	—	—	65,000
—	—	—	16,500	22,955	—	—	—	—	65,000
—	—	—	16,500	—	—	—	—	—	65,000
—	—	—	16,500	—	—	—	—	—	62,900
—	—	—	16,500	—	—	—	—	—	—
—	—	—	16,500	—	—	—	—	—	—
—	—	—	16,500	—	—	—	—	—	—
$ 100,000	$ 99,870	$ 1,700	$ 310,000	$ 274,335	$ 19,800	$ 2,145	$ 56,380	$ 214,785	$ 693,900

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

June 30, 2005

(Dollars in Thousands)

Payable from General Fund Revenues

	Natural Gas Series 2004A 3-1-04 2%-3.25%	Clean Water Series 2004A 3-29-04 2%-3.25%	Clean Water Refunding Series 2004 9-29-04 3%-5.5%	Capital Improvement Refunding Series 2004 9-29-04 4%-5.5%	Public School Refunding Series 2004 9-29-04 5%	Public Improvement Refunding Series 2004 9-29-04 3%-5.5%	Public Improvement Series 2005A 1-12-05 4%-5.5%	Natural Gas 2005 1-12-05 3%-4%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ch. 935, 1989 session law	—	—	—	—	—	—	—	—
Ch. 542, 1993 session law	—	—	—	—	—	—	—	—
Ch. 631, 1995 session law	—	—	—	—	—	—	—	—
General Statute Ch. 142	—	—	—	—	—	—	—	—
Ch. 590, 1995 session law	—	—	—	—	—	—	—	—
Ch. 132, 1998 session law	36,000	15,255	—	—	—	—	—	—
Ch. 3, 2000 session law	—	—	—	—	—	—	—	—
2004 session law	—	—	11,900	59,275	155,245	57,470	705,500	16,000
Total bonds authorized and issued	36,000	15,255	11,900	59,275	155,245	57,470	705,500	16,000
Accretion	—	—	—	—	—	—	—	—
Bonds retired	7,200	3,100	290	1,435	—	165	—	—
Partial defeasances	—	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2005	$ 28,800	$ 12,155	$ 11,610	$ 57,840	$ 155,245	$ 57,305	$ 705,500	$ 16,000
Bond Maturity As Follows:								
2005-06	7,200	3,100	2,975	—	—	65	21,800	3,200
2006-07	7,200	3,100	2,910	11,725	—	65	21,800	3,200
2007-08	7,200	3,100	2,870	11,580	30,825	70	21,800	3,200
2008-09	7,200	2,855	2,855	11,545	31,260	70	21,800	3,200
2009-10	—	—	—	11,515	31,160	9,575	21,800	3,200
2010-11	—	—	—	11,475	31,055	9,555	25,000	—
2011-12	—	—	—	—	30,945	9,535	25,000	—
2012-13	—	—	—	—	—	9,510	25,000	—
2013-14	—	—	—	—	—	9,490	25,000	—
2014-15	—	—	—	—	—	9,370	25,000	—
2015-16	—	—	—	—	—	—	25,000	—
2016-17	—	—	—	—	—	—	25,000	—
2017-18	—	—	—	—	—	—	25,000	—
2018-19	—	—	—	—	—	—	25,000	—
2019-20	—	—	—	—	—	—	54,000	—
2020-21	—	—	—	—	—	—	80,000	—
2021-22	—	—	—	—	—	—	80,000	—
2022-23	—	—	—	—	—	—	80,000	—
2023-24	—	—	—	—	—	—	77,500	—
2024-25	—	—	—	—	—	—	—	—
2025-26	—	—	—	—	—	—	—	—
2026-27	—	—	—	—	—	—	—	—
2027-28	—	—	—	—	—	—	—	—
Total Bonds Outstanding	$ 28,800	$ 12,155	$ 11,610	$ 57,840	$ 155,245	$ 57,305	$ 705,500	$ 16,000

Table 5

Payable from General Fund Revenues			Payable from Highway Trust Fund				
Refunding Series 2005A 1-12-05 3%-5%	Refunding Series 2005B 6-29-05 5%		*Total Highway Trust*	Highway Series 1997A 11-1-97 4.5-5.0%	Highway Series 2003 12-1-03 3%-5%	Highway Refunding Series 2004 9-29-04 5.0-5.5%	Highway Series 2004 9-29-04 3%-5%
$ —	$ —		$ —	$ —	$ —	$ —	$ —
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		650,000	250,000	400,000	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
106,895	470,510		398,370	—	—	98,370	300,000
106,895	470,510		1,048,370	250,000	400,000	98,370	300,000
—	—		—	—	—	—	—
—	—		137,015	116,725	18,000	2,290	—
—	—		99,925	99,925	—	—	—
			—				
$ 106,895	$ 470,510		$ 811,430	$ 33,350	$ 382,000	$ 96,080	$ 300,000
45	3,235		54,675	16,675	18,000	—	20,000
45	—		54,675	16,675	18,000	—	20,000
50	—		54,055	—	18,000	16,055	20,000
50	19,650		54,090	—	18,000	16,090	20,000
50	27,085		54,065	—	18,000	16,065	20,000
50	27,040		54,030	—	18,000	16,030	20,000
12,025	45,490		54,000	—	18,000	16,000	20,000
11,935	53,010		53,840	—	18,000	15,840	20,000
11,810	73,555		54,600	—	34,600	—	20,000
11,680	73,650		54,600	—	34,600	—	20,000
11,600	69,255		54,600	—	34,600	—	20,000
47,555	71,925		54,600	—	34,600	—	20,000
—	6,615		54,600	—	34,600	—	20,000
—	—		54,600	—	34,600	—	20,000
—	—		50,400	—	30,400	—	20,000
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
—	—		—	—	—	—	—
$ 106,895	$ 470,510		$ 811,430	$ 33,350	$ 382,000	$ 96,080	$ 300,000

Source: Compiled by the Department of State Treasurer

SCHEDULE OF SPECIAL OBLIGATION DEBT

June 30, 2005 — Table 6

(Dollars in Thousands)

		Lease Purchase Revenue Bonds			*Certificates of Participation*				
	Total Special Obligation Debt	*Total Lease Purchase Revenue Bonds*	NC Correctional Facilities Lease Purchase Series 2003 7-15-03 2.0% - 5.25%	NC Facilities Projects Lease Purchase Series 2004 11-1-04 2.0% - 5.25%	*Total Certificates of Participation*	Certificates of Participation Series 2003A 4-1-03 2.0% - 5.25%	Correctional Facilities Project Series 2004A 2-1-04	Certificates of Participation Series 2004A 5-6-04	Certificates of Participation Series 2005A 6-9-05
Bonds Authorized and Issued:									
Ch. 284, 2003 session law.........	$ 502,360	$ 218,405	$ 218,405	$ —	$ 283,955	$ —	$ 158,955	$ 125,000	$ —
Ch. 143, 2000 session law............	17,500	—	—	—	17,500	17,500	—	—	—
General Statute Ch. 148-37.2....	53,640	53,640	—	53,640	—	—	—	—	—
Ch. 179, 2004 session law.........	188,385	—	—	—	188,385	—	—	—	188,385
Total bonds authorized and issued.............................	761,885	272,045	218,405	53,640	489,840	17,500	158,955	125,000	188,385
Bonds retired.............................	21,670	7,000	7,000	—	14,670	725	7,945	6,000	—
Bonds outstanding— June 30, 2005......................	$ 740,215	$ 265,045	$ 211,405	$ 53,640	$ 475,170	$ 16,775	$ 151,010	$ 119,000	$ 188,385
Bond Maturity As Follows:									
2005-06..................................	31,110	10,000	8,000	2,000	21,110	650	7,950	6,000	6,510
2006-07..................................	31,420	10,000	8,000	2,000	21,420	665	7,950	6,000	6,805
2007-08..................................	31,760	10,000	8,000	2,000	21,760	690	7,950	6,000	7,120
2008-09..................................	32,110	10,000	8,000	2,000	22,110	720	7,950	6,000	7,440
2009-10..................................	32,470	10,000	8,000	2,000	22,470	740	7,950	6,000	7,780
2010-11..................................	32,880	10,000	8,000	2,000	22,880	765	7,950	6,000	8,165
2011-12..................................	33,325	10,000	8,000	2,000	23,325	795	7,950	6,000	8,580
2012-13..................................	33,780	10,000	8,000	2,000	23,780	825	7,950	6,000	9,005
2013-14..................................	34,265	10,000	8,000	2,000	24,265	860	7,950	6,000	9,455
2014-15..................................	34,780	10,000	8,000	2,000	24,780	905	7,950	6,000	9,925
2015-16..................................	35,325	10,000	8,000	2,000	25,325	950	7,950	6,000	10,425
2016-17..................................	34,540	8,650	8,000	650	25,890	1,000	7,945	6,000	10,945
2017-18..................................	34,995	8,500	8,000	500	26,495	1,055	7,945	6,000	11,495
2018-19..................................	35,120	8,000	8,000	—	27,120	1,110	7,945	6,000	12,065
2019-20..................................	57,630	28,850	19,000	9,850	28,780	1,165	7,945	7,000	12,670
2020-21..................................	50,175	24,000	19,000	5,000	26,175	1,230	7,945	7,000	10,000
2021-22..................................	50,235	24,000	19,000	5,000	26,235	1,290	7,945	7,000	10,000
2022-23..................................	50,305	24,000	19,000	5,000	26,305	1,360	7,945	7,000	10,000
2023-24..................................	51,170	26,225	23,405	2,820	24,945	—	7,945	7,000	10,000
2024-25..................................	12,820	2,820		2,820	10,000	—	—	—	10,000
Total Bonds Outstanding...........	$ 740,215	$ 265,045	$ 211,405	$ 53,640	$ 475,170	$ 16,775	$ 151,010	$ 119,000	$ 188,385

Source: Compiled by the Department of State Treasurer.

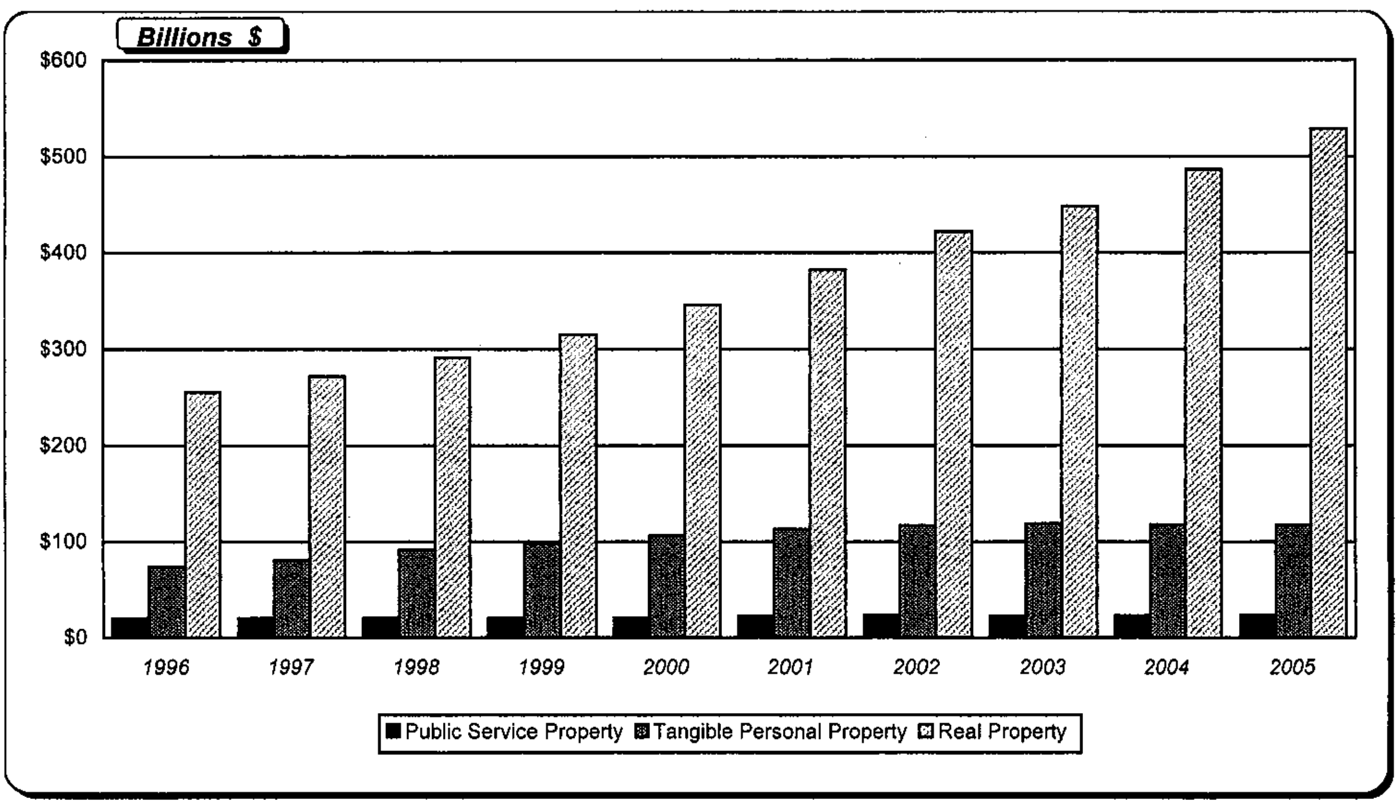
STATEWIDE ASSESSED PROPERTY VALUES
REAL PROPERTY, TANGIBLE PERSONAL PROPERTY AND PUBLIC SERVICE COMPANIES

For the Fiscal Years 1996-2005

Table 7

For the Years	Assessed Value at January 1: Real Property	Tangible Personal Property	Public Service Companies	Total
2005	528,533,828,510	117,683,367,201	23,258,360,938	669,475,556,649
2004	486,461,699,574	117,944,792,111	22,997,034,378	627,403,526,063
2003	448,370,864,967	118,788,285,500	22,602,081,344	589,761,231,811
2002	421,831,969,378	116,740,143,820	23,355,586,210	561,927,699,408
2001	382,422,908,009	112,992,132,642	21,952,438,541	517,367,479,192
2000	345,704,989,165	105,984,739,896	20,874,178,731	472,563,907,792
1999	314,949,315,291	97,834,758,018	20,244,024,631	433,028,097,940
1998	291,205,137,584	91,392,925,590	20,442,713,966	403,040,777,140
1997	271,764,063,900	80,698,570,134	20,194,521,863	372,657,155,897
1996	255,260,809,402	74,021,864,531	19,847,155,764	349,129,829,697

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 1996-2005 *Table 8*

(Dollars in Thousands)

Commercial, Savings Banks & Thrifts

As of June 30	Chartered State	Chartered National		Total Deposits
2005	98,445,058	999,000,149	[1]	1,097,445,207
2004	90,732,421	734,363,393	[1]	825,095,814
2003	80,487,515	653,561,925	[1]	734,049,440
2002	70,914,385	565,715,954	[1],[2]	636,630,339

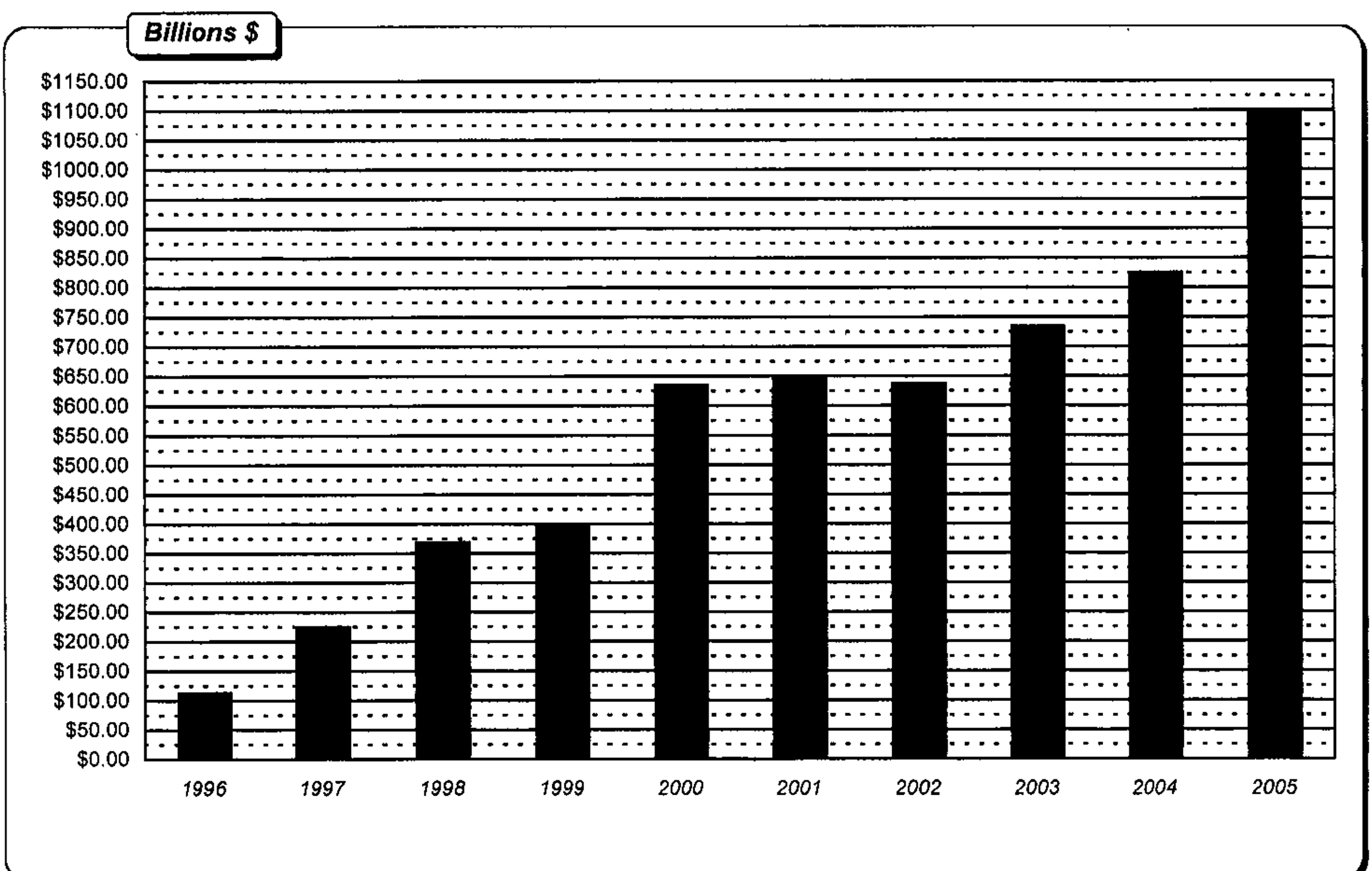
Banks

As of June 30	Chartered State	Chartered National		Total Deposits
2001	68,181,993	575,167,149	[1]	643,349,142
2000	54,700,398	574,253,124	[1]	628,953,522
1999	47,171,364	342,200,834	[1]	389,372,198
1998	42,834,645	319,721,396	[1]	362,556,041
1997	40,258,721	178,556,322	[1]	218,815,043
1996	37,637,624	75,499,983		113,137,607

Savings and Loan Associations

As of Dec. 31	Chartered State	Chartered Federal	Total Deposits
2000	2,563,408	2,113,000	4,676,408
1999	2,951,811	2,294,505	5,246,316
1998	3,283,086	2,408,829	5,691,915
1997	3,440,310	2,663,747	6,104,057
1996	3,459,159	2,636,338	6,095,497

Deposits in North Carolina Financial Institutions Last Ten Years



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

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

Source: North Carolina Department of Commerce - State Chartered

CASH RECEIPTS FROM FARMING BY COMMODITIES

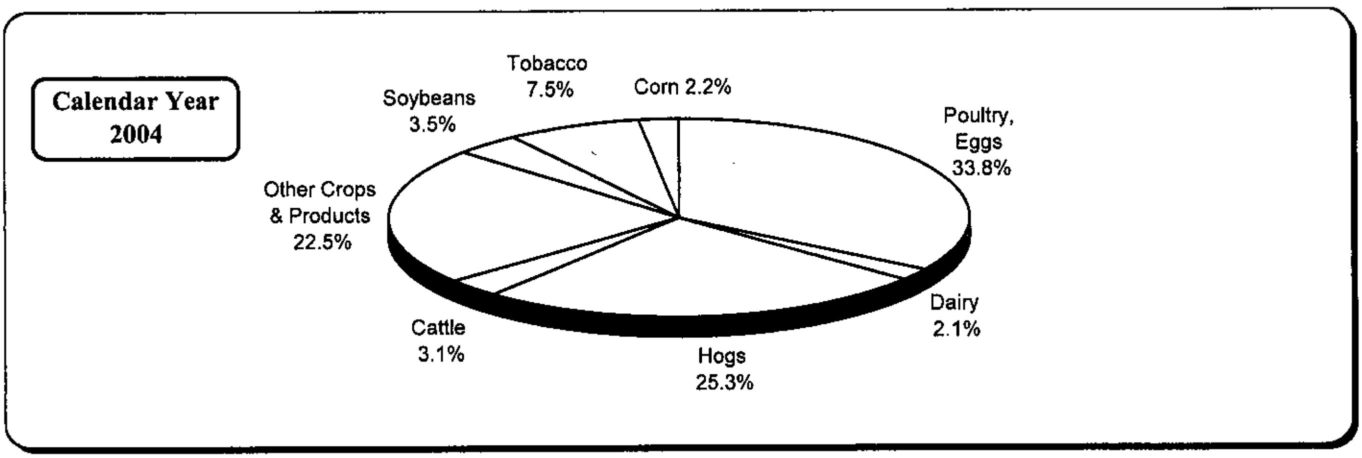
For the Calendar Years 1995-2004 — *Table 9*

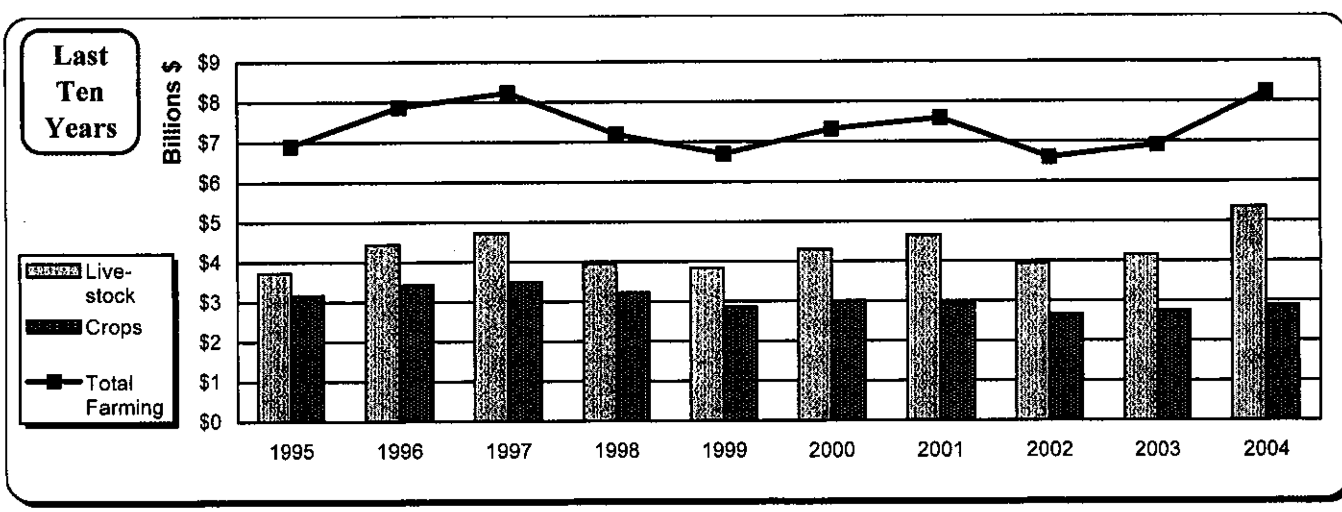
(Dollars in Millions)

	Livestock and Related Products						Crops					Total
Year	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	All Livestock and Crops
2004	2,779.2	170.8	2,078.8	258.5	64.0	5,351.3	620.1	287.9	181.7	1,789.4	2,879.1	8,230.4
2003	2,198.7	143.3	1,533.3	220.0	62.5	4,157.8	598.3	238.0	150.8	1,761.4	2,748.5	6,906.3
2002	2,093.3	154.7	1,407.1	223.8	60.8	3,939.7	694.4	162.0	131.5	1,672.0	2,659.9	6,599.6 [1]
2001	2,458.2	194.4	1,721.5	227.7	52.6	4,654.4	685.8	183.2	151.6	1,909.9	2,930.5	7,584.9
2000	2,171.3	174.5	1,671.6	231.7	50.8	4,299.9	854.1	169.4	116.8	1,869.4	3,009.7	7,309.6
1999	2,212.3	207.1	1,160.3	208.7	50.8	3,839.2	784.3	174.7	101.5	1,795.4	2,855.9	6,695.1
1998	2,225.0	208.0	1,323.1	154.0	46.2	3,956.3	976.7	173.8	111.7	1,966.5	3,228.7	7,185.0
1997	2,210.3	193.6	2,058.8	213.1	47.5	4,723.3	1,193.2	270.9	196.6	1,843.0	3,503.7	8,227.0
1996	2,250.6	214.3	1,766.5	153.2	56.9	4,441.5	1,021.5	229.3	298.0	1,879.0	3,427.8	7,869.3
1995	2,053.9	189.9	1,279.3	146.9	61.0	3,731.0	1,048.5	157.4	165.7	1,795.4	3,167.0	6,898.0

[1] Numbers restated by Agricultural Department

CASH RECEIPTS FROM FARMING





Source: *North Carolina Crop and Livestock Reporting Service (Data for 2005 is not available.)*

MAJOR PRIVATE EMPLOYERS IN NORTH CAROLINA

Table 10

The State's largest major private employers, ranked in order according to first quarter 2005 preliminary employment averages, are listed:

2005 Rank	Employer	Type of Business
1	Wal-Mart Stores, Inc.	Discount store chain
2	Duke University	Private university, medical center
3	Food Lion LLC	Supermarket chain
4	Wachovia Bank, NA	Banking and financial services
5	IBM Corporation	Computers, telecommunications
6	Lowes Home Centers, Inc.	Hardware chain
7	Bank of America, NA	Banking and financial services
8	Harris Teeter, Inc	Supermarket chain
9	Sara Lee Corporation	Hosiery, baked goods, apparel
10	Branch Banking & Trust Co	Banking and financial services
11	United Parcel Service, Inc	Delivery services
12	U S Air, Inc	Airlines
13	Lowes Food Stores, Inc	Supermarket chain
14	Moses H Cone Memorial Hospital	Medical services
15	Duke Energy Corporation	Utility - electrical
16	GlaxoSmithKline	Pharmaceuticals
17	Winn Dixie Raleigh Inc	Supermarket chain
18	Smithfield Packing Co.	Meat packing
19	Adecco USA, Inc	Professional and business services
20	Belk Inc	Department store chain
21	Target Stores	Department store chain
22	RJ Reynolds Tobacco Company	Tobacco
23	Home Depot USA Inc	Hardware chain
24	Britthaven Inc	Education and health services
25	Ingles Markets Inc	Supermarket chain

Source: North Carolina Employment Security Commission

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SCHEDULE OF DEMOGRAPHIC DATA

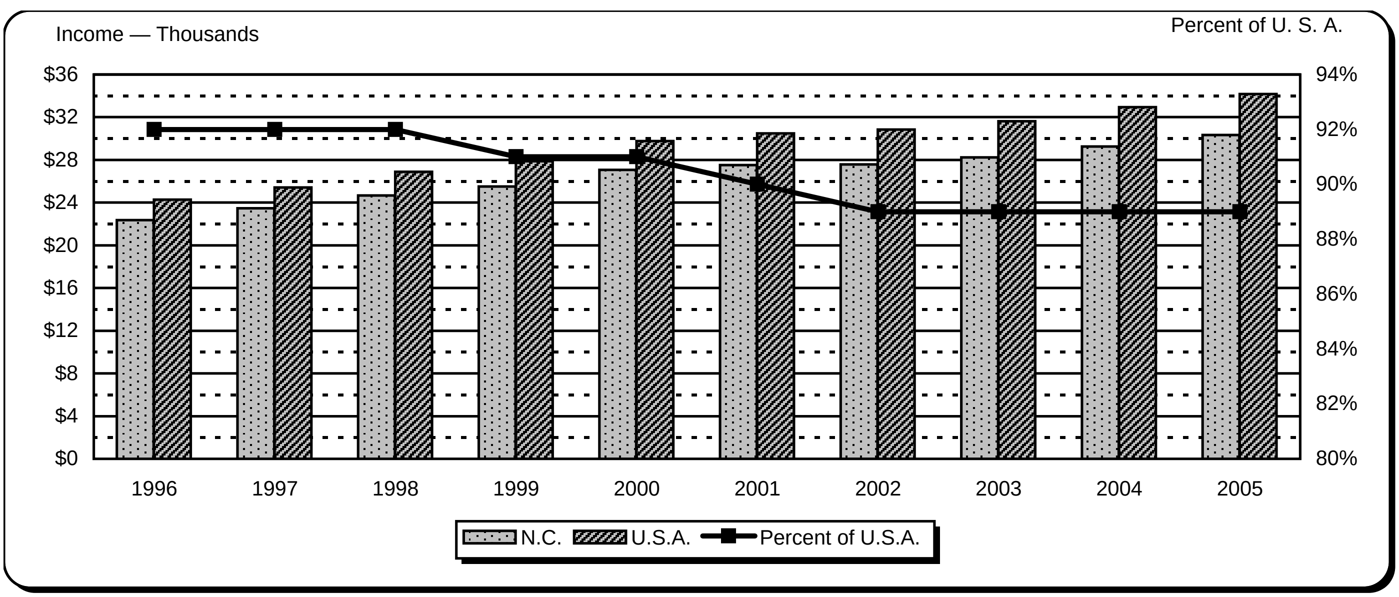
For the Years 1950, 1960, 1970, 1980, 1990, 1996-2005

	Population [1]						Per Capita Income [2]				
Year	United States Population		U.S. Increase from Prior Period	North Carolina Population		N.C. Increase from Prior Period	United States		North Carolina		N.C. as a Percentage of U.S.
2005	296,533,227	[F]	0.98%	8,677,026	[F]	1.59%	$ 34,165	[G]	$ 30,336	[G]	88.79%
2004	293,655,404	[D]	0.98%	8,541,221	[D]	1.59%	$ 32,937	[E]	$ 29,246	[E]	88.79%
2003	290,809,777	[D]	0.85%	8,407,248	[D]	1.05%	31,632	[E]	28,235	[E]	89.26%
2002	288,368,698	[D]	1.25%	8,320,146	[D]	1.64%	30,832	[E]	27,566	[E]	89.41%
2001	284,797,000	[D]	0.95%	8,186,268	[D]	1.70%	30,472	[E]	27,514	[E]	90.29%
2000	282,125,000	[D]	3.46%	8,049,313	[D]	5.25%	29,770	[E]	27,055	[E]	90.88%
1999	272,691,000	[B]	0.90%	7,647,934	[C]	1.35%	27,880	[E]	25,504	[E]	91.48%
1998	270,248,000	[B]	0.92%	7,545,735	[C]	1.58%	26,893	[E]	24,661	[E]	91.70%
1997	267,784,000	[B]	0.96%	7,428,579	[C]	1.66%	25,412	[E]	23,468	[E]	92.35%
1996	265,229,000	[B]	0.92%	7,307,565	[C]	1.70%	24,270	[E]	22,350	[E]	92.09%
1990	248,791,000	[A]	9.82%	6,632,448	[A]	12.79%	19,588		17,295		88.29%
1980	226,546,000	[A]	11.13%	5,880,095	[A]	15.65%	10,062		8,090		80.40%
1970	203,849,000	[A]	13.26%	5,084,411	[A]	11.59%	4,072		3,255		79.94%
1960	179,979,000	[A]	18.51%	4,556,155	[A]	12.17%	2,254		1,615		71.65%
1950	151,868,000	[A]		4,061,929	[A]		1,496		1,037		69.32%

[A] - U.S. Census count - April 1 (1950 - 1990)
[B] - U.S. Census estimates - July 1 (1991 - 2000)
[C] - N.C. Office of State Planning estimate - July 1, 1991 - 1999, based on April, 1990 census population of 6,628,637 and April, 2000 census population of 8,049,313
[D] - U.S. Census estimates based on 2000 census
[E] - Bureau of Economic Analysis estimate

[F] - Since the 2005 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2005 amounts.
[G] - Since the 2005 per capita income estimates are not available, the Office of State Controller used the U.S. Per Capita Income growth rate of the previous year to project the 2005 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2005 Per Capita Income for North Carolina".

Per Capita Income
North Carolina Compared to United States
1996 to 2005



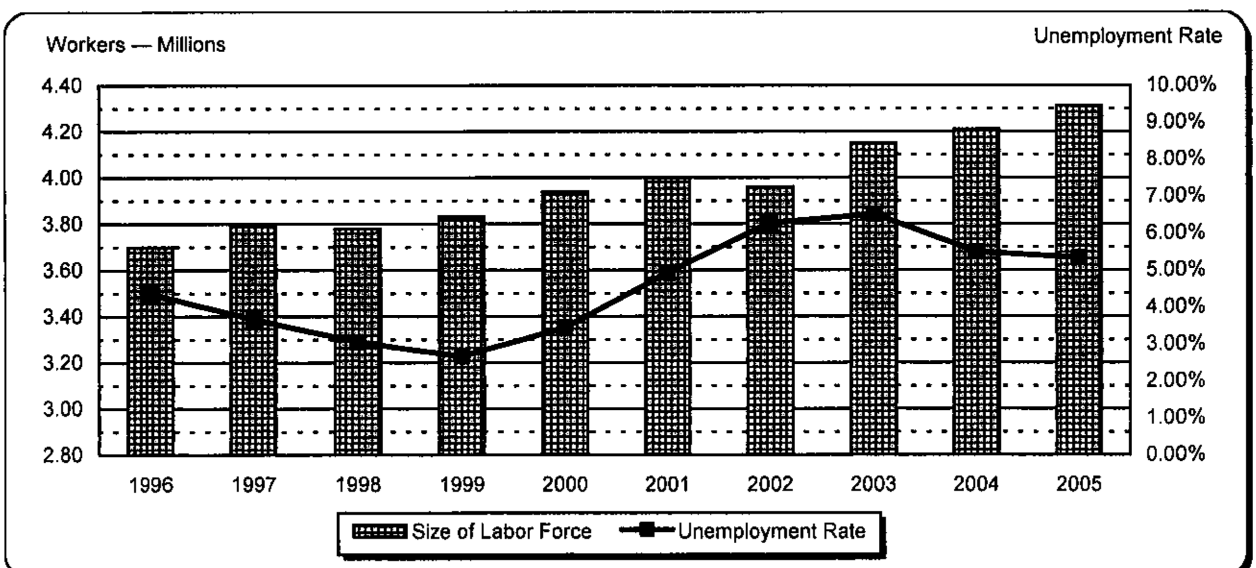
Sources:	*[1] Population*	*U.S. Department of Commerce, Bureau of the Census* *N.C. Office of State Planning*
	[2] Per Capita Income	*U.S. Department of Commerce, Bureau of Economic Analysis* *N.C. Office of State Budget and Management*
	[3] Seasonally Adjusted Labor Force Data - As of June 30	*N.C.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

Table 11

	North Carolina Civilian Labor Force Data			[3]	North Carolina - Other Data		
					[4]	[5]	[6]
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	Public School Enrollment	Motor Vehicles Registered	Residential Construction Authorized
2005	4,308,482	4,078,645	229,837	5.33%	1,346,681	7,925,587	50,488
2004	4,208,568	3,977,421	231,147	5.49%	1,325,344	7,701,410	46,735
2003	4,152,243	3,882,026	270,217	6.51%	1,303,777	7,624,272	38,137
2002	3,964,000	3,715,400	248,600	6.27%	1,285,729	7,498,181	40,763
2001	3,999,300	3,802,500	196,800	4.92%	1,267,070	7,344,437	23,555
2000	3,941,000	3,805,300	135,700	3.44%	1,249,922	7,112,610	77,351
1999	3,826,000	3,724,100	101,900	2.66%	1,229,929	6,911,814	105,117
1998	3,776,300	3,661,000	115,300	3.05%	1,208,368	6,428,104	103,432
1997	3,796,900	3,657,800	139,100	3.66%	1,183,335	6,392,269	93,609
1996	3,703,000	3,548,000	155,000	4.35%	1,156,885	6,303,969	89,485
1990	3,471,000	3,339,000	132,000	3.80%	1,065,399	5,600,050	30,471
1980	2,759,197	2,607,925	151,272	5.48%	1,191,342	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	1,217,024	3,218,292	N/A
1960	1,680,442	1,605,478	74,964	4.46%	1,105,412	1,907,988	N/A
1950	1,512,924	1,463,352	49,572	3.28%	893,745	1,171,228	N/A

N/A = Data not available.

Civilian Labor Force Trends With Unemployment Percentages 1996 to 2005



Sources:

[4] Public School Enrollment - Final Average Daily Membership for the School Year September 1 to June 30 — *N.C. Department of Public Instruction*

[5] Motor Vehicle Registrations - For the Fiscal Year Ended June 30 — *N.C. Division of Motor Vehicles*

[6] Residential Housing Permits — *N.C. Department of Labor*

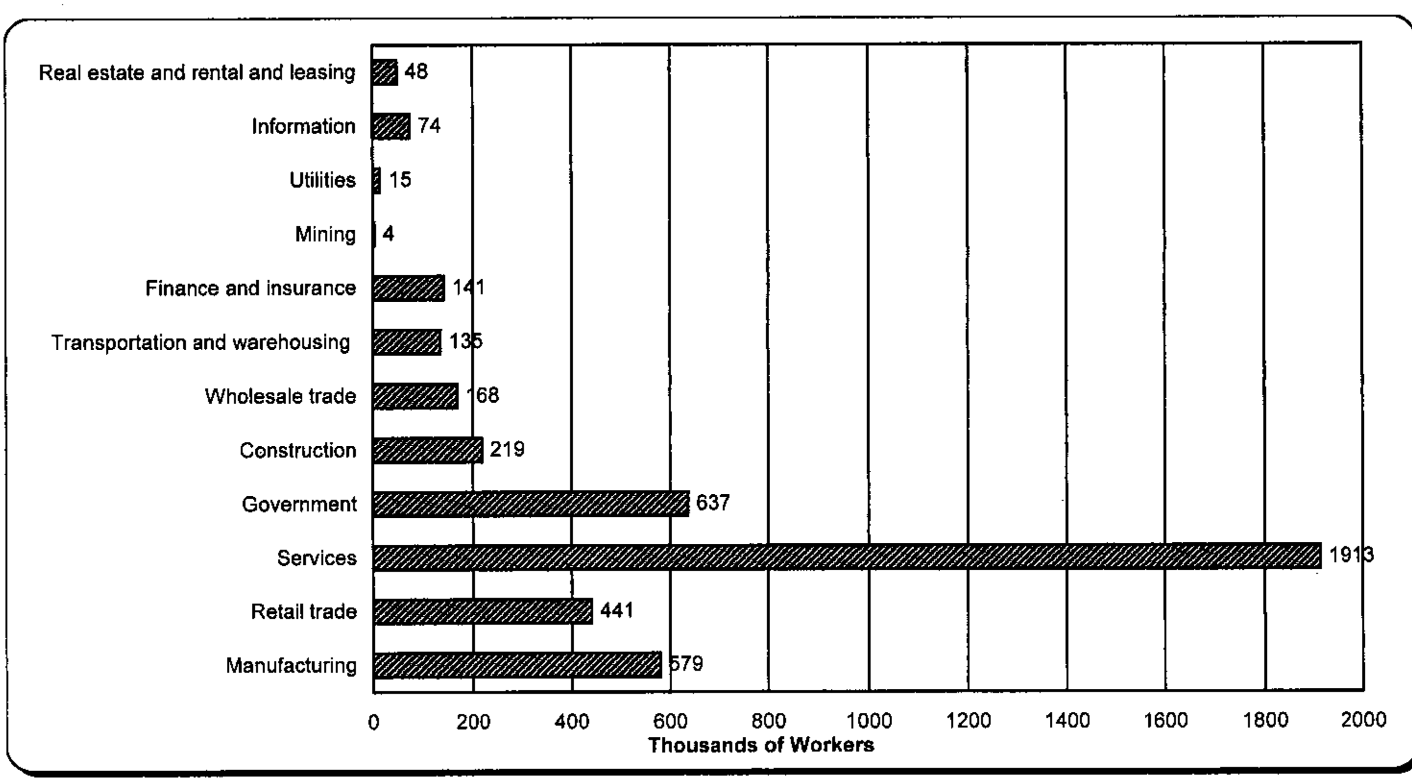
TEN LARGEST NON-AGRICULTURAL INDUSTRIES BY NUMBER OF EMPLOYEES

For the Calendar Years 1995-2004 — *Table 12*

(Expressed in Thousands of Workers)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Manufacturing	579.4	577.6	633.9	674.8	750.4	769.2	788.7	800.7	810.5	819.5
Retail trade	440.9	429.5	452.4	459.1	467.3	462.1	447.9	446.9	432.3	423.7
Services	1,912.8	1,868.5	1,859.5	1,836.6	1,811.9	1,781.4	1,718.4	1,625.6	1,568.6	1,505.6
Government	636.9	641.1	638.0	633.9	614.6	605.7	596.4	574.3	559.2	547.7
Construction	219.2	208.1	215.6	226.9	232.0	228.7	221.4	207.7	197.0	180.7
Wholesale trade	167.7	165.2	162.8	160.0	166.0	165.0	159.7	154.7	148.9	150.9
Transportation and warehousing	134.7	131.1	133.8	139.4	148.3	144.8	142.2	139.5	137.1	137.3
Finance and insurance	140.9	139.0	137.7	126.6	126.6	126.7	126.0	125.1	119.4	110.3
Mining	3.5	3.5	4.2	4.2	4.2	4.3	4.5	4.3	4.1	3.9
Utilities	14.6	14.8	15.5	15.3	15.2	17.6	17.7	23.4	24.2	25.3
Information	73.8	74.4	79.4	82.3	85.6	79.1	76.2	72.0	69.4	65.9
Real estate and rental and leasing	48.1	45.8	47.2	48.2	48.1	47.4	45.4	44.0	42.3	39.0
Total Non-Agricultural Employment	4,372.5	4,298.6	4,380.0	4,407.3	4,470.2	4,432.0	4,344.5	4,218.2	4,113.0	4,009.8

Number of Employees by Industry - 2004 (Non-Agricultural)



Source: North Carolina Employment Security Commission (Data for 2005 is not available)

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

For the Fiscal Years 1996-2005 *Table 13*

		Fiscal Years Ended June 30									
		2005	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Education:											
Public education	[1]	152,228	147,339	142,876	139,503	138,623	133,531	130,525	127,578	123,027	116,695
Higher education		32,947	31,289	30,036	33,749	33,756	33,326	31,556	31,173	30,607	30,386
Community colleges		15,572	15,103	14,406	13,770	13,045	13,045	11,192	10,534	10,309	10,729
Total Education		200,747	193,731	187,318	187,022	185,424	179,902	173,273	169,285	163,943	157,810
% Annual growth		**3.62%**	**3.42%**	**0.16%**	**0.86%**	**3.07%**	**3.83%**	**2.36%**	**3.26%**	**3.89%**	
% Cumulative growth		**27.21%**	**22.76%**	**18.70%**	**18.51%**	**17.50%**	**14.00%**	**9.80%**	**7.27%**	**3.89%**	
All Other:											
Health and human services	[2]	18,730	18,432	17,984	18,103	18,754	18,640	18,606	19,724	18,373	18,373
% Annual growth		**1.62%**	**2.49%**	**(0.66)%**	**(3.47)%**	**0.61%**	**0.18%**	**(5.67)%**	**7.35%**	**0.00%**	
% Cumulative growth		**1.94%**	**0.32%**	**(2.12)%**	**(1.47)%**	**2.07%**	**1.45%**	**1.27%**	**7.35%**	**0.00%**	
Correction		19,926	19,874	18,845	19,062	19,001	19,217	18,796	19,774	19,099	18,879
% Annual growth		**0.26%**	**5.46%**	**(1.14)%**	**0.32%**	**(1.12)%**	**2.24%**	**(4.95)%**	**3.53%**	**1.17%**	
% Cumulative growth		**5.55%**	**5.27%**	**(0.18)%**	**0.97%**	**0.65%**	**1.79%**	**(0.44)%**	**4.74%**	**1.17%**	
Transportation	[3]	13,942	14,218	16,550	16,505	16,524	16,281	16,081	17,010	16,536	16,411
% Annual growth		**(1.94)%**	**(14.09)%**	**0.27%**	**(0.11)%**	**1.49%**	**1.24%**	**(5.46)%**	**2.87%**	**0.76%**	
% Cumulative growth		**(15.04)%**	**(13.36)%**	**0.85%**	**0.57%**	**0.69%**	**(0.79)%**	**(2.01)%**	**3.65%**	**0.76%**	
Judicial		5,593	5,577	5,460	5,463	5,458	5,438	5,337	5,486	5,124	4,978
% Annual growth		**0.29%**	**2.14%**	**(0.05)%**	**0.09%**	**0.37%**	**1.89%**	**(2.72)%**	**7.06%**	**2.93%**	
% Cumulative growth		**12.35%**	**12.03%**	**9.68%**	**9.74%**	**9.64%**	**9.24%**	**7.21%**	**10.20%**	**2.93%**	
Other		18,228	19,421	18,456	18,568	18,673	18,345	17,465	16,457	16,964	16,730
% Annual growth		**(6.14)%**	**5.23%**	**(0.60)%**	**(0.56)%**	**1.79%**	**5.04%**	**6.13%**	**(2.99)%**	**1.40%**	
% Cumulative growth		**8.95%**	**16.08%**	**10.32%**	**10.99%**	**11.61%**	**9.65%**	**4.39%**	**(1.63)%**	**1.40%**	
Total Positions		277,166	271,253	264,613	264,723	263,834	257,823	249,558	247,736	240,039	233,181
N.C. population (1000's)	**[4]**	**8,677**	**8,541**	**8,407**	**8,320**	**8,186**	**8,049**	**7,648**	**7,546**	**7,429**	**7,308**
Annual growth		**1.59%**	**1.59%**	**1.05%**	**1.64%**	**1.70%**	**5.25%**	**1.35%**	**1.58%**	**1.66%**	
Cumulative growth		**18.73%**	**16.87%**	**15.04%**	**13.85%**	**12.01%**	**10.14%**	**4.65%**	**3.26%**	**1.66%**	

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

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

[3] Prior to 2003-04, Department of Transportation position counts included certain transportation related positions at the Highway Patrol, DENR, Agriculture and Public Schools.
Beginning with 2003-04 the counts only include Department of Transportation positions.

[4] Since 2005 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2005 amount.

Source: North Carolina Office of State Budget and Management
Counts for fiscal year ended 2005 are projected from prior year data

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 1996-2005

The following table illustrates how earned revenues (net of reinsurance) and investment income of the Public School Insurance Fund (the Fund) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund for the last ten fiscal years ended June 30. The rows of the table are defined as follows:

(1) Total of each fiscal year's earned contribution revenues, investment revenues, contribution revenues ceded to excess insurers or reinsurers, and amount of reported revenues net of excess insurance or reinsurance.

(2) Each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.

(3) The Fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (before the effect of loss assumed by excess insurers or reinsurers), the loss assumed by excess insurers or reinsurers, and total net amount of incurred claims and allocated claim adjustment expenses.

(4) Cumulative amounts paid as of the end of successive years for each policy year.

(5) The reestimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year.

(6) The reestimated net incurred claims and expenses based on the information available as of the end of the year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

(7) Comparison of the latest reestimated net incurred claims amount to the amount originally established (line 3) and indication of whether this latest estimate of claims cost is greater or less than originally thought.

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND

For the Fiscal Years Ended June 30, 1996-2005 *Table 14*

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.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1) Required contribution and investment revenue:										
Earned	7,180	7,099	8,354	6,343	6,687	8,136	9,599	12,255	10,826	16,219
Ceded	2,264	2,298	2,041	1,683	1,727	2,453	2,839	3,396	3,121	2,380
Net earned	4,916	4,801	6,313	4,660	4,960	5,683	6,760	8,859	7,705	13,839
2) Unallocated expenses	2,909	2,941	2,706	2,398	2,541	3,214	3,597	3,953	3,689	2,951
3) Estimated claims and expenses, end of policy year:										
Incurred	3,246	14,351	8,496	8,615	21,141	6,449	4,846	2,690	12,586	2,093
Ceded	—	6,862	700	357	—	—	—	—	—	—
Net incurred	3,246	7,489	7,796	8,258	21,141	6,449	4,846	2,690	12,586	2,093
4) Paid (cumulative) as of:										
End of policy year	2,061	9,595	2,044	4,077	13,158	422	392	1,921	10,381	3,129
One year later	3,723	13,129	4,193	5,931	15,818	2,475	640	2,765	12,788	
Two years later	3,742	13,803	4,297	6,108	17,368	2,475	640	3,219		
Three years later	3,744	13,810	4,324	6,388	17,368	2,475	640			
Four years later	3,760	13,822	4,324	6,388	17,368	2,475				
Five years later	3,760	13,822	4,324	6,388	17,368					
Six years later	3,760	13,822	4,324	6,388						
Seven years later	3,760	13,822	4,324							
Eight years later	3,760	13,822								
Nine years later	3,760									
5) Reestimated ceded claims and expenses	—	6,862	700	357	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year	3,246	7,489	7,796	8,258	21,141	6,449	4,846	2,690	12,586	2,093
One year later	3,814	6,771	3,724	6,740	17,240	2,475	4,846	3,543	12,911	
Two years later	3,789	7,023	3,735	6,161	17,368	2,475	4,846	3,947		
Three years later	3,765	6,976	3,640	6,031	17,368	2,475	4,846			
Four years later	3,760	6,960	3,624	6,031	17,368	2,475				
Five years later	3,760	6,960	3,624	6,031	17,368					
Six years later	3,760	6,960	3,624	6,031						
Seven years later	3,760	6,960	3,625							
Eight years later	3,760	6,960								
Nine years later	3,760									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	514	(529)	(4,171)	(2,227)	(3,773)	(3,974)	—	1,257	325	—

SCHEDULE OF MISCELLANEOUS STATISTICS

As of June 30, 2005 — *Table 15*

Adoption of State Constitution	1776, 1868, 1971
Form of government	Executive, Legislative, Judicial
Land area:	
Square miles	50,000
Acres	31,999,760
Miles of highway	78,844
State police protection:	
Number of stations	61
Number of state police	1,729
Higher Education:	
Community colleges	
Number of campuses	58
Number of students [average annual full time equivalent (FTE)]	190,890
State universities	
Number of campuses	16
Number of regular term students (FTE)	158,398
Number of regular term teaching positions (FTE)	11,778
Recreation:	
Number of State parks and other recreational areas	60
Area of State parks (acres)	183,459
Area of State forests (acres)	428,544

Sources:

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

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